



NEW JERSEY DEPARTMENT OF COMMUNITY AFFAIRS

DIVISION OF LOCAL GOVERNMENT SERVICES

PERFORMANCE AUDIT OF THE CITY OF JERSEY CITY

Performed by Wiss & Company, LLP for period from
July 1, 2007 through June 30, 2008

CITY OF JERSEY CITY PERFORMANCE AUDIT

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PERFORMANCE AUDIT REPORT



April 30, 2009

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

This report presents the results of our performance audit (“audit”) of the City of Jersey City (“the City”) for the period from July 1, 2007 through June 30, 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 performance 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 most recent annual financial statement, prior year audit reports and corrective action plans, annual budgets, annual debt statements, the organization charts of the City and various departments, 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 over each significant process 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 certain City employees existed in the departments that were included in our verification.

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 Jersey City Response

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

Wiss & Company

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, this 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 the report.

As a condition of receiving Special Municipal Aid, the Division required that the City must undergo a performance audit that focused on the City's internal controls and statutory/regulatory compliance in the following areas:

- Purchasing/Accounts Payable/Cash Disbursements
- Payroll/Human Resources
 - Payroll and Personnel
 - Employee Benefits
 - Accounting for Accumulated Sick, Vacation, and Comp Time
- General Fiscal Operations, including:
 - Budget Process
 - Revenue and Cash Receipts
 - General Ledger Maintenance
 - Banking and Investment Policies
 - Capital Ordinances
 - Tax Abatements and Exemptions
 - Trust Funds
 - Grant Accounting
- Information Technology Operations
- Risk Management
- Inventory and Fixed Assets
- Other Matters

For each of the areas identified above, we developed an understanding of the application process and controls through discussions with the process owners, which led to the development of a process narrative. In the process narrative, we identified the City's key controls that were developed by the City to help ensure the appropriate processing and recording of transactions. We performed walkthroughs of transactions of certain processes to ensure the key controls identified in the narrative were in place and actually operating as intended. Based on the results of our walkthroughs or other procedures performed, we formulated a preliminary risk assessment of the process and determined whether or not it would be beneficial to perform a detailed test of controls or other internal control and compliance procedures over the process in order to obtain further evidence of the operating effectiveness of the identified key controls or perform some alternative procedures. For the processes that we determined detail testing of controls to

be appropriate, we performed 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 focused on the City’s payroll/human resources and purchasing/accounts payable/cash disbursement processes due to the significant 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:

Process	Final Risk Assessment
Purchasing / Accounts Payable / Cash Disbursements	Medium
Payroll and Human Resources:	
Payroll and Personnel	Medium
Employee Benefits	High
Accounting for Accumulated Sick, Vacation and Comp Time	High
General Fiscal Operations:	
Budget Process	Low
Revenue and Cash Receipts	Medium
General Ledger Maintenance	Medium
Banking and Investment Policies	Low
Capital Ordinances	Medium
Tax Abatements and Exemptions	Medium
Trust Funds	Medium
Grant Accounting	Medium
Information Technology Operations	Medium
Risk Management	Medium
Inventory and Fixed Assets	High

From our initial meeting at the City through our final closing meeting with City Management, the employees of the City of Jersey City acted professionally, were cooperative, ensured that we received answers to questions and provide documentation and other requests and responses in a timely manner, and were an integral part of the fluidity and success of this engagement. 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.

Following this Engagement Summary section is the Project Background which will provide insight and useful information on the 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 Jersey City, the performance audit covered the period from July 1, 2007 through June 30, 2008.

Background Information on the City of Jersey City

The City of Jersey City is a municipality located in Hudson County, New Jersey. It is organized as a Mayor – Council municipality under the provisions of N.J.S.A. 40:69A. The City is governed by an elected Mayor and Council. The Council consists of nine members, three of which are elected at-large by voters of the City and serve a term of four years. The City's fiscal year 2008 budget was \$463,957,000 and had approximately 3,352 full-time employees. The City operates under a State fiscal year of June 30.

The City has one of the most diverse populations in the United States and is host to an array of ethnicities and cultures. The City is composed of substantial communities of Jewish, Italian, Cuban, Filipino, Polish, Indian, Irish, Puerto Rican, Dominican, African, Arab, and Asian decent. It also has the historic Ellis Island within its borders.

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 engagement, confirming key areas to be included in the engagement and acceptance of our 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 to the Division.

- Discussed individual roles and responsibilities for each of the engagement team members.
- Discussed the purpose of the performance audit.
- 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 report in accordance with *Government Auditing Standards*.

After the initial meeting with the Division, the following procedures were performed as part of the planning process:

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 on January 7, 2009. The meeting included the Wiss engagement team and members from the City, including Assistant Business Administrators, the Chief Financial Officer and other members of management on-site at the One Journal Square Plaza location. This meeting set the tone for the audit and facilitated the engagement 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 engagement, established protocols for the request of information, established timeframe for future status meetings 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:

- 2008 and 2007 audit reports and related corrective action plans
- 2008 unaudited financial statement
- 2008 and 2007 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/Human Resources, including
 - Payroll and Personnel
 - Employee Benefits
 - Accounting for Accumulated Sick, Vacation and Comp Time
- General Fiscal Operations, including:
 - Budget Process
 - Revenue and Cash Receipts
 - General Ledger Maintenance
 - Banking and Investment Policies
 - Capital Ordinances
 - Tax Abatements and Exemptions
 - 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 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 a sample of employees receiving a paycheck from various departments, or in the absence of reasonable verification, verification of time sheet submissions or other procedures deemed appropriate.
 3. Statutory and regulatory compliance review of all (100 percent) professional services, competitive contracting, 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 any findings:

1. analysis of sampled 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 and a sample tested,
5. analysis of payroll data to identify employees whose base salary increased by greater than \$7,500 from Fiscal Year 2007 to 2008 and a sample tested.

4. Cost Saving Opportunities – Throughout the entire engagement process, Wiss identified potential efficiencies or procedures that could lead to cost saving opportunities for the City. These cost saving 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 Assistant Business Administrators 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 as requested. 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 performance 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 March 31, 2009, is included in Appendix A to this report.

City Exit Meeting – Wiss conducted an exit meeting with City management including Assistant Business Administrators and the Chief Financial Officer at City Hall on March 10, 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 SAVING OPPORTUNITIES

Cost Saving 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 33 percent of the amount that the City would have paid in health insurance premiums. 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 gained. We suggest that the City perform an analysis of similar programs in other municipalities to determine the feasibility of further reducing the opt-out reimbursements.
- 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. 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.
- All collective bargaining agreements with City employees have expired as of December 31, 2008 and have not yet been renewed. The City is currently in the early stages of its negotiations with several of the bargaining units. We suggest that the City consider requiring employees to contribute a portion to employee benefits and look for other cost savings measures as negotiations move forward.
- The City is currently paying employees on military leave their full pay and clothing allowance, while at the same time, the employees are receiving their military pay. We suggest the City enforce its policy and collective bargaining agreements to only pay employees on military leave the difference of their current salary and the military leave payments.
- In 2005, the City refunded a significant amount of its outstanding debt in order to reduce costs and to balance out the payments between years. We suggest the City continue to review its outstanding debt and whenever possible look to refund in order to obtain additional savings.

All of these recommendations are suggestions to be considered by the City and may or may not produce current cost benefits. 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 and compliance.

Purchasing/Accounts Payable/Cash Disbursements

Overview and Background

The City operates separate departments for its purchasing and accounts payable functions. The City's purchasing function is handled by the Division of Purchasing and the accounts payable function is handled by the Division of Accounts and Control. The following positions were interviewed during the process of gaining an understanding of the processes and controls in place over the operations within each of these departments:

- Director of Purchasing
- City Comptroller
- City Clerk
- Treasurer
- Assistant Business Administrator responsible for Purchasing and Accounts Payable functions within the City

The Division of Purchasing and the Division of Accounts and Control are under the supervision of the Business Administrator.

As part of our procedures, we developed a high level understanding of the purchasing, accounts payable and cash disbursement processes. The following sub-processes were identified as part of the Division of Purchasing and Division of Accounts and Control assessments:

- Requesting a purchase requisition
- Purchase requisition approval
 - Consideration of Local Public Contracts Law: professional services, extraordinary un-specifiable services, and competitive contracts
 - Quotation requirements
 - Bidding requirements
- Purchase order issuance
- Receipt of goods and services
- Payment of invoices

We interviewed all appropriate individuals within the processes and prepared narratives documenting the processes and controls in place. We also performed a walkthrough of the appropriate processes of the Purchasing, Accounts Payable and Cash Disbursement processes. In addition to our walkthroughs, we performed tests of controls and compliance procedures related to the processes in order to determine our risk assessments.

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

Purchasing Process

General

The City's purchasing functions are handled by the Division of Purchasing, which is responsible for the providing the final approval for the purchasing of goods and services and ensuring that the City is in compliance with all of the purchasing requirements established in the Local Public Contracts Law. The City does not currently have a Qualified Purchasing Agent. The Division of Purchasing follows four basic principles:

- Obtain the goods and services necessary for City government to do its job.
- Obtain the highest quality goods and services at the best price.
- Obtain goods and services from minority-owned, woman-owned, and local businesses when possible.
- Adhere to the rules and regulations of the Local Public Contracts Law (N.J.S.A. 40A:11 et seq.).

Requesting a Purchase Requisition

All requests for purchases of materials, supplies and services must be initiated through the completion of a purchase requisition ("requisition") with the exception of payments paid via an NC Voucher, which is the form used to pay for employee reimbursement purposes only. A requisition may be completed by any of the City's employees. The completion of a requisition is considered Level 1 of the purchasing process. All requisitions are completed electronically and are pre-numbered by the H&L software application ("system"), the City's financial system. The system does not allow the initiation of a purchase requisition if there are no available funds on the account line selected by the employee.

Purchase Requisition Approval

Once it is determined that the appropriate account line has been selected and has available funds and the requisition is initiated, the requisition is electronically forwarded to the Division Director for review and approval, which is considered Level 2 of the purchase requisition approval process. The requisition is then forwarded electronically to the Director of the Department for review and approval, which is considered Level 3 of

the purchase requisition approval process. Once the purchase requisition has received a Level 3 approval, the purchase requisition is forwarded electronically to the Division of Purchasing.

In the Division of Purchasing, there are Principal Buyers assigned to the City's various departments. The Principal Buyer's responsibilities include reviewing the requisition for the following:

- The purchase represents a purchase of goods or services that may be contracted through a professional service, an extraordinary un-specifiable service (EUS), or competitive contracting resolution.
- The purchase requires the City to obtain quotations, which is required for all purchase transactions greater than \$3,150, except for those specifically exempt by statute.
- The purchase totaling an amount greater than \$21,000 and therefore requires the City to award the purchase through the competitive bid process, except for those that are specifically exempt by statute.
- The purchase represents goods or services that have an available State contract.
- The purchase included any unusual or incomplete areas requiring additional information.

The first three bullets are further explained below:

Professional Services, Extraordinary Un-specifiable Services, and Competitive Contracts

The Principal Buyer is required to verify that the City adheres to all Local Public Contracts Law requirements within N.J.S.A. 40A:11 by ensuring that the City Council approves a resolution stating the City's reasons to support the awarding of the contract and verifying that all other specific requirements related to each method of contracting is met.

Quotation Requirements

The Principal Buyer obtains quotes from several vendors, attaches the quotes to a printout of the electronic requisition, and verifies the lowest qualified vendor is selected for the purchase.

Bidding Requirements

In instances where the bidding process is required, the requisition initiated by a department accompanies the requisition with bid specifications which have been approved by the Director of the Department, the City's Law Department, the Business Administrator's Office, and the Office of Affirmative Action. Once the Principal Buyer receives all approvals, the bid is advertised in the City's designated newspapers. Upon receipt of the bids, the Principal Buyer reviews the bid packages for all required documentation as well as compliance with the bid specifications. Upon determining the lowest qualified bidder, the Purchasing Director reviews the bid and adds the award to

the City's Council Meeting Agenda for approval. All bid documents are maintained in bid folders in the Purchasing Department.

Once the necessary procedures noted above have been performed by the Principal Buyer and all the required documentation has been obtained, the Principal Buyer approves the requisition on a printout of the electronic requisition. The Principal Buyer then transfers the requisition to a purchase order within the system and forwards the purchase order to the Purchasing Director.

Purchase Order Issuance

The Purchasing Director reviews the requisition and any supporting documentation as well as the availability of funds in the budgetary account lines. Upon approval, the Purchasing Director prints the purchase order and manually signs the original purchase order. The purchase order is then separated into three copies, one copy is sent to the vendor, one copy is sent to the requesting department, and one copy is maintained in the Division of Purchasing. At this point, the Principal Buyer orders the goods or services based upon the approved purchase order.

Accounts Payable and Cash Disbursements Process

General

The City's accounts payable and cash disbursement functions are handled by the Division of Accounts and Control, which is comprised of 13 full-time employees. The Division of Accounts and Control is responsible for accounting, recording and reporting of financial information. The Division of Accounts and Control interacts with all City offices regarding disbursements of all funds and related accounting transactions.

There are three types of accounts payable transactions processed in the Accounts Control Department as follows:

Purchase Order Related Payments

- Payments via a Purchase Order & Voucher (This is the typical purchase order utilized in the purchasing process.)
- Partial payments via a Partial Payment Voucher (This form is to be used by the requisitioning department for processing payments on a contract that will require multiple payments throughout the contract. This type of purchase does have an overall Purchase Order & Voucher from which the Partial Payment Voucher's are paid towards.)

Reimbursements Not Requiring a Purchase Order

- Payments via an N.C. (Non Contractual) Voucher (This method of payment is to be used for employee reimbursement purposes only. N.C. Vouchers are not to be used for processing payment of a purchase or contract agreement.)

Purchase Order Related Payments

Upon receipt of goods or services ordered via a purchase order, and upon receipt of the related invoice and bill of lading or receiving report (if applicable) for goods or services provided to the City, the department receiving the goods or services reviews the invoice and bill of lading or receiving report (if applicable) to ensure that the documents are in agreement and, if so, signs to certify the receipt of goods or services and either:

Purchase Order & Voucher

- attaches the supporting invoice and bill of lading or receiving report (if applicable) to the Purchase Order & Voucher along with a print out of the electronic Purchase Requisition; or

Partial Payment Voucher

- completes a Partial Payment Voucher and attaches the supporting invoice and bill of lading or receiving report (if applicable).

If an invoice amount is greater than the balance available on the Purchase Order, the department then completes a Request for Change Order or Cancellation Form to request a change increasing the original Purchase Order and forwards the Request for Change Order or Cancellation Form to the Purchasing Director for approval. Once the department has sufficient funds available for the Purchase Order to pay the invoice received, the department then attaches the supporting invoice, bill of lading or receiving report (if applicable), approved Request for Change Order or Cancellation Form to the applicable Purchase Order & Voucher or the Partial Payment Voucher along with a print out of the electronic Purchase Requisition and forwards the package to the Division of Accounts and Control.

Upon receipt of the Purchase Order & Voucher and Partial Payment Voucher packages, a clerk within the Division of Accounts and Control stamps the package received, verifies that the package includes a print out of the electronic Purchase Requisition, the supporting invoice, bill of lading or receiving report (if applicable), and the approved Request for Change Order or Cancellation Form (if applicable), and verifies that the information within the package is in agreement. Upon completion, the Division of Accounts and Control Clerk will approve the accounts payable transaction as evidenced by the Clerk's initials, enter the accounts payable transaction into the system, and then separate the copies of either the Purchase Order & Voucher or Partial Payment Voucher: (1) copy for the Office of the City Clerk, (2) copy for the Division of Accounts and Control, (3) copy for the Division of Treasury and Debt Management.

N.C. Voucher Payments

The payments made via NC Voucher typically represent payments for employee reimbursements. Upon receipt of supporting documentation (i.e. mileage allowance, travel expenses, etc.), the department completes an NC Voucher, attaches the related

supporting documentation (if applicable), and forwards the package to the Division of Accounts and Control.

Upon receipt of the N.C. Voucher, a clerk within the Division of Accounts and Control stamps the package received, verifies that the package includes the approved employee reimbursement form and the supporting employee expense receipts and/or mileage and respective dates, and verifies that the information within the package is in agreement. Upon completion, the Division of Accounts and Control Clerk will approve the accounts payable transaction as evidenced by the Clerk's initials; and enter the accounts payable transaction into the system.

Once all Purchase Order & Vouchers, Partial Payment Vouchers, and N.C. Vouchers for a meeting have been processed by the Division of Accounts and Control, the supporting copies of the accounts payable transactions are packaged and forwarded to the Office of the City Clerk in time for the applicable City Council meeting set to approve payment of the transactions.

Payment of Claims

When claims are prepared for payment, the Comptroller issues a Request for Funds Available in the appropriate bank account(s) at least 4 days prior to the intended check release date. The Division of Treasury and Debt Management's Finance Director will respond within 48 hours to confirm the receipt of the Request for Funds Available and will advise as to whether or not funds will be available by the requested date. If sufficient funds will be available, the Comptroller continues with the preparation of payment item(s). If sufficient funds will not be available, processing of the item(s) may continue, but the application of the signature by the Division of Treasury and Debt Management may not occur until the Council has approved payment and sufficient funds are available in the bank account.

Upon receipt of the accounts payable transactions scheduled for the City's Council meeting from the Division of Accounts and Control, the City Clerk ensures that the packages are accessible for the City Council meeting. Any packages that will not be paid are returned to the Division of Accounts and Control along with a memo identifying the issue causing the deferral or denial of payment. These vouchers remain in the Division of Accounts and Control until the issue has been resolved. Once the bill list has been approved for payment by the City Council, the bill list is sent to the Division of Treasury and Debt Management in order for the checks to be issued in accordance with the approved bill list.

Upon receipt of the approved bill list, the Division of Treasury and Debt Management pulls the package provided by the Division of Accounts and Control, verifies that the information on the bill list is in agreement with the package, and selects the vouchers to be paid in the system. The checks are then printed on a laser printer and the appropriate signatures, which are the signature of the Mayor and the Chief Financial Officer, are printed automatically on the checks.

The only payments permitted to be made between meeting dates are for statutory expenditures which require the approval of the Chief Financial Officer and the Finance Director.

Controls Identified

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

Purchasing

- The financial software prohibits the processing of the purchase requisition if there are insufficient funds in the budgetary line item.
- Principal Buyers are required to ensure that the City receives a W-9 and Business Registration Certificate for all vendors.
- Only Principal Buyers and the Purchasing Director have the ability to set up a vendor in the accounting system.
- Principal Buyer reviews and approves all purchase requisitions via either a sign-off or code on a printout of the electronic purchase requisition.
- All bid awards are approved by City Council.
- Purchasing Director reviews and approves all purchase orders certifying the appropriateness of the purchase and the availability of funds in the budgetary account line(s), which is evidenced by a manual sign off on the purchase order. Certification as to the availability of funds is approved prior to a purchase order being issued.
- Competitively advertised bids are obtained for the purchase of goods and services that exceed \$21,000, except for those that are specifically exempt under the Local Public Contracts Law.
- Department personnel review and approve purchase requisitions.

Accounts Payable/Cash Disbursements

- Departments must complete a Request for Change Order or Cancellation Forms in instances that the invoice is greater than the approved purchase order.
- Clerk verifies the purchase order or Partial Payment Voucher supporting documents (i.e. invoice, bill of lading, delivery tickets, etc) are in agreement and approved prior to entering the invoice into the accounts payable system as evidenced by the Clerk's initials or stamp on the document.
- Clerk verifies the NC Voucher's supporting reimbursement form was properly approved prior to entering the invoice into the accounts payable system as evidenced by the Clerk's initials of the document.
- The Finance Director verifies that the appropriate bank accounts have sufficient funds for the payment of claims prior to issuing checks.

- The Division of Treasury and Debt Management only issues payment for Purchase Orders, Partial Payment Vouchers, and NC Vouchers based upon the receipt of an approved Bill List.
- The Division of Treasury and Debt Management verifies the Purchase Orders, Partial Payment Vouchers, and NC Vouchers packages are in agreement with the approved Bill List prior to payment of the package.
- Only the Division of Treasury and Debt Management has the ability to authorize the printing of the City's checks.
- The access to the City's Division of Treasury and Debt Management and therefore the ability to print checks is restricted to Division of Treasury and Debt Management personnel.
- Access to the City's blank check stock is properly restricted.
- The City's blank checks do not have signatures pre-printed on them.
- Payments between meeting dates are made only for statutory expenditures and require Chief Financial Officer and Treasurer approvals.
- The general ledger and subsidiary ledgers are automatically updated with the postings of entries.
- Claimant signatures are required to be obtained.
- Bill lists are approved by City Council.
- Bank reconciliations are performed monthly.

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.

Debarred Vendor Review

In accordance with Federal OMB Circular A-133, organizations receiving federal grant awards are prohibited from entering into a procurement contract utilizing federal funds that exceed \$25,000 with an organization that is suspended or debarred by the federal government. During the 2008 fiscal year, the City did not have a process in place to ensure that procurement contracts exceeding \$25,000 were 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 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.amet.gov>, which is maintained by the General Services Administration; obtaining a certification; or inserting a clause in the executed agreement. Additionally, the State's listing of suspended or debarred organizations can be found at <http://www.state.nj.us/treasury/debarred>.

We have been informed that the City has implemented procedures in the 2009 fiscal year to ensure vendors are not on the debarred vendor list prior to entering into contracts.

N.C. Vouchers

In accordance with the City's Purchasing Policies and Procedures, the N.C. Voucher is used for employee reimbursement purposes and includes such items as mileage allowance, travel expenses, etc. N.C. Vouchers are not permitted to be used for processing payment of a purchase or contract agreement.

During our testing of payments made by the City, we noted four instances in which the City purchased goods or services through an N.C. Voucher that did not represent an employee reimbursement or an appropriate purpose to process the payment through the N.C. voucher process. In reviewing the support for the purchases, the City's purchases should have been processed through a purchase order as part of the purchasing system of the City.

We suggest that the City ensure that all purchases that do not represent an employee reimbursement or other appropriate use of the N.C. Voucher process be processed through a purchase order as part of the City's required purchasing procedures.

Vendor Master File

In reviewing the District's vendor master file, the following was identified:

1. The City had identical vendors listed more than once. This resulted from the vendor names being spelled incorrectly and variations in the formatting of the vendor names.
2. The City has several vendors entered into the system that received payments during the 2007/08 fiscal year that do not include a federal identification number.
3. There are currently over 8,000 vendors in the system that are inactive and have not received payments from the City for a period of at least 1-2 years.
4. Multiple employees and individuals included in the vendor master file that received payment during 2007/08 did not have their social security number listed.

We suggest the City perform an annual review of the vendor master file 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 in which the City does business and vendors are being properly input in the system.

Purchase Order Processing

During our test of transactions, we noted eighteen instances in which purchase orders were prepared subsequent to the receipt of goods or services. The exceptions were noted in the following departments: Fire & Emergency Services, Health and Human Services, Housing, Economic Development & Commerce, Information Technology, Recreation, Law, Administrative Architecture, Public Works, Office of the Mayor, Municipal Court. 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.

Additionally, during our test of transactions, we noted that the City's purchasing department could not locate and provide three approved purchase orders out of our sample selected. In addition, we noted that two purchase orders were not approved by the Purchasing Director, which is an internal requirement of the City's purchasing process.

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*. In addition, all purchase orders should be retained and filed and all required sign offs be present as required.

Bid Exceptions

Pursuant to the State of New Jersey's Local Public Contracts Law (*N.J.S.A. 40A:11*), the City is required to obtain bids for any goods or services, not specifically exempted under Local Public Contracts Law, in which expenditures in any year exceed \$21,000. We identified certain instances where vendors were entered into the system more than once under different vendor codes. As a result of payments being made to the same vendor under the different vendor codes, the City was unaware that certain items purchased from individual vendors that were not specifically exempt from bidding under the Local Public Contracts Law had received payments in excess of the statutory bid threshold of \$21,000. In addition, we noted that the City purchased or contracted for goods or services through separate transactions with the vendors that were under the bid threshold when considered on an individual basis, but in aggregate, exceeded the bid threshold.

We suggest the City implement procedures to ensure that the competitive bidding process is followed for all categories of goods or services (except for those that are specifically exempted under the Local Public Contracts Law) that exceed \$21,000. In addition, the City should perform an analysis of all expenditures paid to vendors that exceeded the bid threshold either individually or in the aggregate and develop a list of purchases that should be considered for inclusion in the annual bid process in the future.

Business Registration Certificates

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

We suggest that a process be established by the City to verify all vendors that the City purchases goods and services from are properly registered to ensure that the City only transacts with approved registered vendors. The City can verify that a vendor is properly registered with the State government through obtaining a vendor's Business Registration Certificate, which is filed with the State of New Jersey, Department of the Treasury Division of Revenue.

Reimbursements to Employees

During our review of reimbursements made to employees, we noted an instance in which an employee was reimbursed for out of pocket expenses via the N.C. voucher. We noted that the reimbursement was not for a typical reimbursement (i.e. mileage reimbursement, travel expense) as dictated by the City's Purchasing Policies and Procedures. The reimbursement represented a purchase of goods which should have been processed through a purchase order. As a result of the City not utilizing a purchase order, the City reimbursed the individual costs of the sales tax paid by the individual on the purchase. In addition, the amount, which was not capital in nature, was charged to a capital ordinance as opposed to the current fund budget.

The City has Purchasing Policies and Procedures in place that identifies the purpose of the N.C. Voucher, which is for employee reimbursement purposes only, and provides examples of the types of allowable reimbursements. We suggest the City ensure that the controls established by the City's Purchasing Policies and Procedures are followed to ensure that all payments representing purchases of goods and services are processed through a purchase order and to ensure the City does not incur sales tax.

Issuance of Annual 1099's

We identified several employees who received a quarterly salary stipend through the purchasing system, instead of through the payroll system. These individuals received income in excess of \$600, which was not included on their W-2 and a federal form 1099 was not issued for their income. In addition to the employees identified, we noted that several individuals in the recreation department received compensation for recreational services in excess of \$600, for which a 1099 was not issued.

We suggest all individuals that are considered employees of the City be paid through the payroll system and taxed properly. For those individuals considered to be a vendor and paid through the purchase order system, the City should ensure all those individuals receiving in excess of \$600 receive a 1099 as required by the Internal Revenue Code.

Resolution Approvals of Extraordinary Un-specifiable Service Contracts

Pursuant to N.J.S.A 40A:11-5(1)(a)(ii), any contract for which the amount exceeds the bid threshold, may be negotiated and awarded by the governing body without public advertising for bids and bidding therefore and shall be awarded by resolution of the governing body if the governing body states the supporting reasons for its action in the resolution awarding each contract that is considered an extraordinary un-specifiable service (EUS). In testing the City's EUS contracts, we noted ten contracts that were designated as EUS contracts and not approved by resolution of the City Council, all of which were below the bid threshold.

Although the statute only addresses EUS contracts for amounts above the bid threshold, we suggest that management consider having all contracts for items that are designated as an EUS and exceed the quote threshold be approved by a resolution of the City Council.

Change Orders

Pursuant to N.J.A.C. 5:30-11.3 the total number of change orders executed for a particular contract shall not cause the originally awarded contract price to be exceeded by more than 20 percent. During our review of purchase order modifications, we identified a certain purchase order for a purchase of a database support product that was increased from \$3,000 to \$53,000 or 1,667 %. The vendor associated with this purchase order was also authorized under another purchase order for software support to the City in the amount of \$150,000. During the year, the City made payments for the software support purchase order, but charged them to the purchase order that was originally set up for the single purchase of a database support project. Per further inquiry, it was noted that these charges were made to this purchase order in error and resulted in the significant increases to the purchase order. It is suggested that all change orders be reviewed for accuracy to ensure that they are being applied to the correct purchase order. In addition we suggest that no purchase orders be increased by an amount in excess of the original approved amount without complying with requirements identified in N.J.A.C. 5:30-11.

Approved Vendor Contracts

In accordance with the City's Purchasing Policies and Procedures, after the award of a contract, a copy of the approved contract is required to be maintained and available for public inspection in the City Clerk's Office. In addition, the Department/Division awarding the contract is also required to retain a copy of the contract. In performing testing procedures over the City's professional services, extraordinary un-specifiable services and competitive contracting awards, we noted that although there were copies of the contracts available for review, the copies were not always the final fully executed contracts.

We suggest that management ensure that the City Clerk's Office is provided the final fully executed copy of all contracts approved through a resolution.

Strengths

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

The City processes over 18,000 purchase orders a year and operates a Current Fund budget of over \$475 million. During the performance of our testing of the City's purchasing/accounts payable/cash disbursement processes, we noted that all of the City's purchase orders are pre-numbered by the system which allows the City to accurately account for all purchase orders. The system also adequately prevents purchase requisitions from being generated if there are not sufficient funds in the budgetary line(s) selected for the purchase. The ability to approve the City's purchases is appropriately restricted to supervisory level positions and the Division of Purchasing personnel. We also noted that each purchase order testing selection was properly supported by a valid invoice, each non contractual voucher testing selection was properly supported by the appropriate approved employee reimbursement form and the related supporting documentation, and all testing selections appeared to be properly charged to an appropriate account in the City's budget. The disbursements of the City are also included on a monthly bill list which is approved by the City Council at their monthly meetings. The operating bank account was reconciled on a monthly basis throughout the year and was also approved by the Comptroller on a monthly basis. On an overall basis, the City has an appropriate level of segregation of duties as the initiation, approval, receiving, recording, and reconciling functions of the purchasing/ accounts payable/cash disbursements process appear to be adequately separated.

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 noncompliance with New Jersey State Statutes and other laws and regulations over the purchasing, accounts payable and cash disbursement processes as medium.

Payroll and Human Resources

Payroll and Personnel

Overview and Background

The Payroll, Personnel, and Pension Departments consist of eleven, nine, and four, full-time employees, respectively. Approximately 95,500 payroll checks were processed during the 2008 fiscal year. Some of the human resource functions performed by these departments include the hiring and terminating of employees, processing of the weekly payrolls, pension enrollment and modifications and payroll and tax compliance issues.

Payroll is processed on a weekly basis based upon a rotating schedule. A rotating schedule of payroll is performed so that one week all civilian employees and uniform firefighters are paid and the next week all uniform police officers are paid.

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

- New hire process
 1. Civilian Employees
 2. Uniform Police Officers and Fire Fighters
- Changes to Employee status
- Termination of Employment
- Processing of Payroll
- Preparation and Distribution of Payroll checks

We interviewed all appropriate individuals within the processes and prepared a narrative documenting the processes and identified controls in place. We also performed certain walkthroughs of the appropriate sub-processes of the payroll and human resource processes. In addition to our walkthroughs, we performed certain test of controls and compliance procedures related to the processes noted above, including the performance of payroll distribution audits of certain departments and buildings within the City to verify the existence of employees. We had considered performing a procedure that would have required access to social security numbers of all employees of the City, but were denied access to those records. We also reviewed all labor contracts as part of our procedures and noted that all collective bargaining agreements/labor contracts within the City expired effective December 31, 2008 and are all currently under negotiation for new contracts.

The following presents a summary of observations related to the payroll and human resource processes as they related to payroll and personnel:

New Hire Process – Civilian Employees

As part of the Memorandum of Understanding with the State of New Jersey, the City is required to obtain approval from the Division prior to hiring any new employees. All municipal departments have the ability to advertise and actively search for new employees. Upon determination of a need by a department to hire an individual, the appropriate division head is required to complete and sign a personnel status form. This form, once approved, is required to be submitted to the department director for approval. After obtaining department director approval, the form is forwarded to the Personnel Department for review. The Personnel Department prepares the required waiver form and sends it with the personnel status form to the Mayor's Office for approval. The waiver form is required by the State of New Jersey for all new hires in accordance with the Memorandum of Understanding. The Mayor's Chief of Staff is required to review and approve the forms. The forms are then sent to the Budget Department for further review and for certification as to the availability of funds. The forms are then sent to the Business Administrator for final approval. Once the Personnel Department receives the forms with all required signatures, they submit the waiver form to the State for review and approval. Once the State has approved the waiver form and returns it to the City's Personnel Department, the Personnel Department will contact the prospective employee to complete all the required paperwork. After all paperwork has been received, a background check and a physical are scheduled. Upon positive results from the background check, physical and approval from the State, the employee is eligible to commence employment. At that point, the Personnel Department prepares a New Jersey Department of Personnel required form known as the County and Municipal Personnel System (CAMPS) form and an in-house form known as the Introduction for Assignment Form, which includes the employees name, social security number, home address, job description, budget account to be charged and salary. The CAMPS form is required to be signed by both the Personnel Director and by the Office of the Business Administrator (either the Business Administrator or the applicable Assistant Business Administrator). These two forms, as well as other required documents, are sent to the Payroll Department with copies of certain required personal documents.

After all of the required information has been received from the Personnel Department, employees of the Payroll Department enter the information from the approved forms into the HTE payroll software system. The Payroll Department, on an as needed basis, distributes a package of forms to each department which includes direct deposit forms and deduction forms. If they wish to utilize the direct deposit or wish to have any voluntary deductions withheld from their pay, the employee is responsible for obtaining the forms from their department supervisor and returning them to the Payroll Department. If an employee is required to have an involuntary deduction (child support, alimony, etc.) withheld, the Payroll Department receives direct notification from the respective agency.

New Hire Process – Uniform Police Officers and Fire Fighters

When the Police Department or Fire Department have determined a need to hire new officers or firefighters they must contact the New Jersey Department of Personnel, Civil Service Commission, and request a listing of individuals who have applied to become firefighters or police officers. The listing is usually requested to include up to 100 names. This list is presented to the Business Administrator for approval to commence the hiring process. The individuals on the list are contacted and requested to, if interested in the position, furnish certain personal information in order for the City to conduct a background check. If the person passes the background check, they are required to take a psychological exam. If they pass that exam, the City requests those individuals to take a physical exam. Once the physical exam is passed, the City of Jersey City will offer positions to the individuals based upon the number of positions that are necessary to be filled. In order to obtain the required paperwork from the individuals, they contact the potential employees and schedule a date for the individuals to come in prior to starting at the academy. A representative from the Personnel Department and from Employee Benefits is present in order to distribute and collect the required paperwork for their respective departments. For the Police Department, the Personnel Department will prepare the employee's initial CAMPS form. For the Fire Department, the CAMPS form will be prepared by the Fire Department Fiscal Bureau and forwarded to the Personnel Department. After preparation of the CAMPS form, the Personnel Department prepares the waiver form as well as follows the procedures outlined above.

Changes to Employee Status

For all changes to employee status, a personnel status form must be completed by the applicable division head, approved by the department director and forwarded to the Personnel Department. For changes that relate to payroll or employee positions, the form must obtain all of the department approvals listed above. The Personnel Department prepares the required CAMPS Form and includes the information that is required to be updated. The only exception to this process is for changes to uniform police officers. The Fiscal Bureau of the Police Department prepares the CAMPS form internally and then forwards it to the Personnel Department. The CAMPS form is then forwarded to the Payroll Department.

Termination of Employment

Termination of employment begins at the individual department level. If an employee is to resign, retire or be terminated by the City, a personnel status form is prepared by the division head and approved by the department director. The form is then submitted to the Personnel Department for review and approval. If an employee is terminated, the department director must prepare a disciplinary action form. Once the Personnel Department has received the required information, they complete and sign for approval a "CAMPS" Form, which includes the change of employee status to terminate and the effective date, and it is distributed to the Payroll Department in order to update the payroll software records. The Police and Fire Departments are exempt from preparing a

personnel status form because they internally prepare and print out the CAMPS forms and send them to the Personnel Department. The Personnel Department forwards all CAMPS Forms to the Payroll Department. Upon receipt, the Payroll Department updates the HTE system to ensure the employee status is denoted as terminated.

Processing of Payroll

The payroll amounts for all salaried employees are automatically calculated each pay period based upon initial salary and wage information established in the system. All employees are required to submit forms in order to request vacation, sick, personal, and comp days to be taken to their supervisors for approval. Hourly employees are required to complete daily timesheets and submit them to their supervisor and they are electronically submitted to the Payroll Department. The department/division supervisor is required to collect the forms and on a bi-weekly basis prepare and sign a summary of their hours and submit it to the Payroll Department. Overtime hours are also prepared on a daily basis and must be approved by the applicable department supervisor. However, all overtime incurred by civilian employees must also be approved by the Office of Business Administrator. Overtime incurred by uniform police officers and fire fighters does not require the approval of the Business Administrator but does require the approval of certain ranking officers in the respective departments. In addition to overtime, the uniform police officers who perform off-duty services also require certain approvals by ranking officers. The Payroll Department enters hourly, other compensation and overtime information into the HTE system. When all of the information has been entered, the Payroll Department prepares a "calc" report. This report is broken out by department and re-distributed to the individual payroll clerks for review. The report is reviewed to ensure all information was entered correctly and is accurate. Once all information is verified to be correct, a final payroll register is generated. Additionally, a final payroll report is downloaded and electronically sent to the Division of Information Technology to be uploaded to the HTE software application.

Preparation and Distribution of Checks

Once the payroll has been completed and the required report has been downloaded, a memo is prepared and sent to the Division of Information Technology containing the first check number that should be generated. The Division of Information Technology prepares a backup of the system and then generates a payroll electronic file. After the electronic file has been created, an update of the payroll system is performed, which posts all of the payrolls to the individual employee's payment history. Once the report has been generated, it is downloaded into a file and is sent to the Division of Treasury and Debt Management, where the checks are printed. The Division of Treasury and Debt Management utilizes a program that automatically prints the signatures of the Mayor and the Chief Financial Officer. The checks are then transferred to the Payroll Department to be organized by department. The checks, as well as the final payroll register, are picked up by couriers and distributed to the individual departments on the day of payroll distribution. The department supervisor signs the payroll register approving it and distributes a payroll signature sheet that each employee is required to sign to verify that

they received their check or direct deposit advice. The department supervisor returns the signed payroll register along with the signed payroll signature sheets to the Payroll Department.

Controls Identified

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

Controls over hiring of new employees

- New positions created after May 2, 2008 (date of the signed Memorandum of Understanding) are required to be approved by the State of New Jersey, Department of Community Affairs, Division of Local Government Services.
- The Personnel Department is required to receive and maintain copies of all required documents (a final employee status form approved by the division head, department director, mayor's office, budget department and Business Administrator, a final approved CAMPS form, Introduction for Assignment Form, employment application, copy of employee's W-4, IRS I-9 form, two forms of identification, and copies of physical authorization forms).
- Prior to entering an employee in the system, the Payroll Department must receive, from the Personnel Department, all required documents (final approved CAMPS Form, Introduction for Assignment Form, W-4 form, and a copy of employee's social security card), which are also maintained.
- Prior to enrolling employees in the pension system, the Pension Department (civilian employees) or the Police and Fire Fiscal Bureau's (Uniform Employees) collect an employee's approved pension enrollment authorization form.

Controls over general payroll procedures

- Annual or hourly salary amounts paid to employees are agreed to approved contracts, ordinances, or collective bargaining agreements by the individual department directors.
- Department heads review and approve timesheets.
- Payroll Department does not issue checks for payments for "other services" prior to obtaining sufficient supporting documentation.
- Department supervisors determine that the budget accounts being charged for employees payroll are reasonable based on duties performed.
- All contractual employees that receive salary increases not covered by collective bargaining agreements must be approved by the Mayor.
- All employees are required to sign the weekly payroll distribution log sheets to verify existence of employees and that they received their check or direct deposit advice.
- All employees receiving direct deposit must properly complete and submit a direct deposit authorization form to the Payroll Department.
- All employees having voluntary deductions withheld from their paychecks must complete and submit the proper documentation to the Payroll Department.

- Payroll bank reconciliations are completed and approved by individuals not involved in the payroll process.

Controls over termination of employees

- Both the Pension and Payroll Departments receive copies of approved CAMPS forms and a personnel status form for all employee terminations.
- Payroll Department updates the payroll system timely to ensure employees do not continue to receive compensation after their date of termination.

Controls over overtime

- All employees, civilians and uniform, who incurred overtime must complete and obtain the required approvals for their overtime.
- For the Police and Fire Departments, the Fiscal Bureaus complete a bi-weekly city-wide report of all overtime incurred for their department.
- For the Police Department, each individual police district must complete a bi-weekly report of all overtime incurred at that district.

Controls over off-duty police

- All officers receiving compensation for off-duty services must complete and sign a daily off-duty police work time sheet.
- Each daily time sheet must be certified by the vendor that requested the service.
- The Fiscal Bureau prepares a bi-weekly report that lists all of the compensation due an officer for their off-duty services.

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 pertaining to payroll and personnel.

File Maintenance and Verification of Required Documents

During our review of payroll related transactions, we noted that the personnel files are required to maintain at least the following documents for active employees in the City:

- Final employee status form
- Employment applications
- County and Municipal Personnel System (CAMP) form
- W-4 form
- Introduction for Assignment Form
- I-9 form
- Two forms of identification
- Employee's physical authorization form

In addition, for the last 5 years, the following documentation has been required to be obtained and maintained by the payroll department for all hired employees of the City.

- County and Municipal Personnel System (CAMP) form
- W-4 form
- Employee Social Security Card
- Final employee status form
- Introduction for Assignment Form
- Direct Deposit Authorization forms (If applicable)

Additionally, it should be noted that the pension enrollment and change of status forms for the Police and Fire Departments are maintained at the respective departments fiscal bureau offices, while all pension forms for civilian employees are maintained in the pension department.

During our testing of employee payroll, personnel and pension files, we noted that the City does not have a formal checklist for each respective department to ensure all required documents are maintained in an employee's file or to track the required documents and ensure they are obtained. We suggest the City establish formal procedures and prepare standardized checklists including all items that should be obtained and maintained in the employee files for each respective department. The checklists would alleviate any inconsistencies and ensure that all employee files contain all required and up-to-date information.

We also noted that several of the required forms, as listed above were missing in personnel files, including fifteen employment applications, forty-two W-4 forms and six physical forms. In addition, twenty-one pension enrollment forms were not maintained in the pension files. We suggest the City implement procedures that would ensure that all required documents are obtained and retained in the applicable employee files.

In addition, the City is required to complete an Employment Eligibility Verification form, the I-9 Form, to ensure each employee hired is authorized to work in the United States. This form is a requirement of the Department of Homeland Security and is required to be retained by the City for three years after the date of hire or one year after the date employment ends, whichever is later. During our procedures over the payroll process, of the items selected for testing, we noted that seventeen current employees of the City did not have an I-9 Form completed and retained in the employees' personnel file. We suggest the City implement procedures that would ensure that all required documents are obtained and retained in the applicable employee files.

Recently, the Payroll Department implemented an internal policy that also requires a copy of the employee's social security card to be transferred to the payroll department prior to entering a new employee in the system. We performed testing of newly hired employees hired during the 2008 fiscal year and identified that copies of two social security cards and one direct deposit authorization form were not available for review.

We suggest the City implement procedures that would ensure that all required documents are obtained and retained in the applicable employee files.

Payroll Distribution Signature Sheets

As part of our assessment of controls over the processing of payroll, we noted that for every pay period, checks are prepared by the Division of Information Technology after approval from the Division of Treasury and Debt Management. In addition to the checks being printed, a control sheet is prepared by the payroll system analyst that accounts for all checks and direct deposit advices to be issued during a specific pay period by department. Every Thursday (Uniform police officers on every other Thursday), the checks and direct deposit advices are prepared and distributed to each department by carriers. Accompanying the checks and direct deposit advices are the control sheets (Payroll Signature Sheet) that require each employee within the City to sign indicating that they received their check or advice and also assisting the City in verifying the existence of employees within the City and that all employees are receiving their respective check or advice. During our test of payroll transactions, we noted that this control is not functioning as intended. A significant number of signatures were missing from the forms tested and in many cases employees were signing for the checks and advices of other employees.

We suggest the City enforce the functioning of this control as it serves to verify the physical existence of employees working within the City and provides a control that each employee received their respective check or advice as evidenced by the signature of the authorized department head or supervisor. We also suggest that the City consider performing periodic payroll distribution audits for all departments and locations on a rotating basis to ensure the control is functioning properly and to verify the existence of employees being paid.

Check Distribution

During our payroll distribution audit, we noted that in certain cases, the payroll checks and direct deposit advices are received by departments and they are not in sealed envelopes. In two departments, we observed the checks being received via the courier and placed on a counter for everyone to obtain their checks and advices. We also observed the employees flipping through the stacks of checks and advices to find their own, resulting in each employee having access to information on other employee checks and advices. To ensure the privacy of personal information and amounts employees are paid, we suggest the checks and advices be placed in envelopes or at least secured to limit access to other employees' personal information.

We have been informed by the City, that they are currently in the process of converting to a new check and advice process whereby all check and direct deposit advices would be sealed with perforations at the time they are electronically prepared.

Military Leave

As part of our assessment of payroll, we performed a payroll distribution audit over several departments. Based upon our procedures, we noted that certain employees within the City are on full time or part time military leave and are receiving both their military check as well as their regular employment check from the City. In addition, all employees on military leave are also receiving a clothing allowance check. Per our review of union contracts for the applicable bargaining units, we noted that the contracts contain a notation that employees ordered to active duty by a component of the United States armed forces will be granted leave without pay for the period of such service. In the event the employee is called to active duty during a Declared War, the employee shall receive the difference in pay between the military pay and regular pay for up to 180 days and the City has the option to extend beyond 180 days.

We suggest the City follow the terms of collective bargaining agreements or revise the terms of the agreements as these contracts are negotiated and settled going forward.

Overtime Pay

During our review of the overtime approval process, we noted that prior to being paid for overtime services rendered, each employee must obtain certain authorizations and approvals. Police officers must obtain approval from their supervising officer and the District Commander. Fire fighters must obtain the approval of the Department Captain, Battalion Chief, Deputy Chief, and the Fire Chief. Additionally, all overtime for civilian employees must be approved by the Office of the Business Administrator prior to being issued payment.

We identified instances where certain required approvals for overtime authorization were not obtained prior to payments being issued. Two instances were identified where police officers received compensation for overtime while the daily overtime authorization requests were not signed off by the supervising officer or by the District Commander on duty. We also noted that overtime for all fire department dispatchers of the City is not being sent to the Office of the Business Administrator for approval prior to being paid to the individuals. These forms are being sent directly to the payroll department for processing. Additionally, we noted that one overtime authorization form for twelve employees of the tax assessor's office was not approved by the tax assessors department. We suggest that the City enforce its requirement of its review process of overtime to ensure that overtime is only being paid to employees that have received all the required authorizations and approvals. The Payroll Department should not issue checks for overtime unless these proper authorizations and approvals are obtained.

In addition, we noted that an individual was paid for overtime for work that the employee did not perform. The check was supposed to be paid for overtime performed by the employee's sibling. In addition, another employee was paid for four hours of overtime that they did not work. The individuals that received the checks incorrectly did not report

the discrepancies. In addition the check paid to an employee's sibling was at a higher pay rate than the amount that should have been paid to the sibling. The funds were never refunded or recouped by the City and the City was not aware that the error had occurred. We suggest that the Payroll Department carefully review all overtime documentation and approvals to ensure payments are being properly administered and paid to proper individuals and for the correct amounts.

Off-Duty Police Pay

Pursuant to Local Finance Notice 2000-14, "Managing and Accounting for Outside Employment of Police Officers," the City adopted ordinance number 07-158 (2007) to establish the City's internal policies and procedures as they pertain to providing off-duty police services. Pursuant to this ordinance, all officers who perform off-duty police services are required to complete a daily off-duty time sheet form and obtain a signature from a representative of the respective vendor for each day of service. We noted two individuals that received compensation for off-duty police services performed that were paid without the officer obtaining a signature from the vendor for each day of services to certify that the officer actually performed the services. We suggest the City review the off-duty time sheets for all officers and ensure that each daily time sheet has received the proper vendor certifications prior to issuing payment to the respective officer.

Check Signatures on Payroll Checks

All payroll checks are electronically signed by the Mayor and Chief Financial Officer (CFO) of the City. The payroll department has obtained the signatures of the Mayor and CFO and scanned them into a data encrypted file. This file was uploaded to a check printing program which allows the City to automatically print the signatures of the Mayor and CFO on the payroll checks when they are processed. We noted that neither the Mayor nor the CFO is required to review the weekly payrolls and approve them prior to their signatures being automatically generated on the checks. We suggest that either the Mayor or CFO, or both be required to review the payroll register and sign off a certification that they approve the payroll and the use of their signatures on the actual checks.

Employee Access Rights in Payroll Department

The City's payroll department is comprised of eleven full-time employees that all have full access rights to the payroll system. This access would allow an employee to create a new employee in the system and/or change the data of an existing employee. In addition to the payroll department, we have identified two individuals in the Information Technology Department that have the same access rights due to their requirement to assist in the annual updates of salaries, based on step increase, for police and fire departments. We have identified that no periodic review of newly created employees is being performed to ensure that the payroll department has all the required documents on hand to support a new employee. We suggest that a periodic review of new employees be performed to ensure that all new employees entered in the system were only entered in

by the payroll department and that all the required paperwork was obtained. Additionally, we suggest that the access rights to create new employees be limited to the payroll department, as the payroll department holds the sole responsibility for receiving the information from the personnel department to enter an employee in the system and that supervisory review procedures be implemented to ensure only valid employees and changes are entered into the system properly and that the information is entered accurately.

Payroll Data Entry

Individual employees in the payroll department are each responsible for collecting and updating data for certain assigned departments in the City. For each weekly payroll, the employees are responsible to gather all of the information for the hourly employees, overtime earned, and other pay due to the City employees in the department they are responsible for. The payroll employee enters all of the information into the HTE computer system. After all the information is entered, the payroll analyst generates a payroll report and distributes the report amongst the payroll clerks to review. Each clerk is responsible to review the departments for which they have already entered the information, but it appears that they are verifying their own input without the review being performed by someone else in the department. We suggest that the review and reconciliation of individual department's information entered in the payroll register be performed by an individual independent of the data input for that department.

Management Level Employees

During our review of employee contracts and labor agreements, we noted that certain employees, classified as management (e.g. Assistant Business Administrators, Chief Financial Officer, Comptroller, and other various positions) are not covered under any of the City's collective bargaining agreements or covered under any approved ordinance and they do not have individual employment agreements or contracts. In order to ensure that management level employees are receiving fair compensation and protect the City and the employees from any discretionary decisions, the City should consider adopting an executive order or ordinance to establish salary ranges and other required contractual obligations with the City Employee's classified as "management."

In addition, we suggest any salary ordinances approved in the future include a salary range with a lower and upper limit. Currently, on one of the approved salary ordinances, the upper limit is discretionary as there is no maximum limit included in the ordinance.

Hourly Employees

During our review of employee contracts and labor agreements, we noted that hourly employees of the Recreation Department and other various departments are paid at hourly rates that are not approved by any formal resolution or ordinance of the City and that the salaries are not included in any of the City's collective bargaining agreements. The amounts are established annually at the discretion of the department head.

To ensure hourly employees are being compensated at a reasonable rate and the rates are applied consistently based upon position; we suggest the City adopt an annual resolution or ordinance setting the rates or a range of rates for hourly employees of the various City departments.

Terminated Employees

In prior years, the City had established formalized procedures where all terminations would require the department supervisor to meet with the terminated employee and go through a checklist of items to ensure all proper termination procedures are followed. However, we noted the City is no longer utilizing formalized policies, procedures and checklists with regards to terminated employees, there exists the possibility that terminated employees could receive payroll disbursements, not return City property, or have inappropriate access to the City's computer system, buildings and offices if the City does not take immediate action upon termination.

We suggest that the City implement formalized procedures relating to terminated employees to ensure that terminated employees do not receive payroll disbursements, retain City property, or gain unauthorized access to buildings and their access rights to the computer system are removed timely. A checklist should be prepared and made part of the termination process.

Employee's with Duplicate Social Security Numbers

During a test of employees hired and terminated between July 1, 2007 and June 30, 2008, we identified four (4) employees that were paid under different social security numbers. This resulted from the hiring and termination process related to seasonal employees. When seasonal employee's employment ends, the employee is terminated in the system. If the employee is subsequently rehired for additional seasonal work, they are reentered into the system. It appears that all four of these individuals have been seasonal employees for multiple years and were reentered into the system during the 2008 fiscal year. However, during the reentering, a single digit of each of their social security numbers was not properly entered into the system, resulting in these individuals being in the HTE payroll system multiple times and receiving payments under each variation of their respective social security numbers. We suggest that greater care be exercised during the process of entering an employee into the system to ensure that employee's social security number and other related information are being properly captured. This will help to ensure duplicate or fictitious employees are not being entered.

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 as they relate to payroll and personnel related functions. The following paragraph discusses our observed and identified strengths.

The City employs over 3,300 full time employees as well as part time employees who are each paid on a bi-weekly basis, and when combined with special pays for overtime, stipends, reimbursements, and other non-traditional pays, disburses over 95,500 payroll checks annually. During the performance of our testing of the City's payroll and personnel processes, we noted that all new employees hired by the City that we tested were hired with the required approvals of the Department Director, Mayor's Office, Budget Department, and the Business Administrator's Office. All full time employees tested were paid in accordance with their approved contract or collective bargaining agreement. In addition, the City properly calculated the employees' payroll deductions appropriately for the payroll transactions selected for testing. The payroll bank account was reconciled, reviewed and approved on a monthly basis throughout the year. In addition, the Division of Accounts and Control approves the accuracy of all quarterly and annual State and Federal reports, which are generated from the Payroll department, and ensures that the reports are filed with the respective State and Federal agencies accurately and on a timely basis. On an overall basis, the City has an appropriate level of segregation of duties as the personnel, payroll data entry and reporting, employee benefits, and pension functions are adequately separated.

Conclusion on the Effectiveness of Internal Control

Based upon the procedures performed and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and noncompliance with New Jersey State Statutes and other laws and regulations over the payroll and human resources processes as they relate to payroll and personnel as medium.

Payroll and Human Resources

Employee Benefits

Overview and Background

The Employee Benefits Department consists of three full-time employees, including a department supervisor. The Employee Benefits Department is responsible for distributing and collecting all applications or enrollment changes from employees for employee benefits, uploading all of the information received to the City's health benefit providers, tracking employees who have chosen to waive their benefits and receive compensation, offering and tracking COBRA benefits, and tracking retirees receiving health benefits.

The City of Jersey City currently offers three types of distinct benefit coverages to all City employees. The coverage's are currently offered at no cost to the employees and are fully funded by the City. Health coverage is offered through Horizon Blue Cross/Blue Shield; Dental coverage is offered through Delta Dental; and Prescription coverage is offered through Express Scripts. Employees are not eligible to receive any benefits unless they work a minimum of twenty hours per week. Health coverage is not available until after sixty days of employment, while prescription and dental are not available until after the first of month subsequent to sixty days of employment.

During the 2008 fiscal year, the City of Jersey City opted to change its health care coverage provider from the State of New Jersey Health Benefits Plan to Horizon Blue Cross/Blue Shield. In order to alleviate the extra work load on the City's Employee Benefits Department, the City contracted with an outside vendor that was responsible for gathering the employee (active and retiree) data and directly uploading it to the benefits provider's database. This also included obtaining information directly from the State Health Benefits Plan and using this data to convert the individuals to the new health benefits plan.

As part of our procedures, we developed a high level understanding of the employee benefits process. The following sub-processes were identified as part of the employee benefit process:

- Enrollment / changes to enrollment in employee benefits
- Employee waiver of employee benefits
- Removal of employees from benefits
- Retiree benefits

We interviewed all appropriate individuals within the process and prepared a narrative documenting the process and key controls in place. We also performed a walk-through of the appropriate sub-processes within the employee benefits process. In addition to our

walkthrough, we performed certain tests of controls and compliance procedures related to the processes.

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

Enrollment / Changes to Enrollment in Employee Benefits

On a periodic basis, the Employee Benefits Department is required to prepare packets for the individual departments within the City that includes all the employee benefit program applications and change request forms and a general employee information sheet. It is the responsibility of each department supervisor to distribute these forms to all new employees and any existing employees that request to make a change in their benefits. The employee is responsible for completing the applicable forms and returning them to the Employee Benefits Department directly. Once the forms are received, the Employee Benefits Department uploads the information into an in-house benefits and an Employee Data Verification Form is generated and compared to the information provided. This form is mailed to the employee for his/her signature of approval that the information provided is accurate. On an annual basis, this form is also reprinted and forwarded to the individual departments in order to distribute them to all the employees of the City. Again the form must be signed for approval and returned to the Employee Benefits Department. Once the Department has received all required information, individuals within the Department log into the applicable benefit providers system via the internet and upload the necessary information to the provider's database. In addition, copies of all applications or change requests are sent to the provider to support the information that was directly uploaded by the City.

Employee Waiver of Employee Benefits

Employees who elect to opt out of medical coverage are eligible to receive payment in lieu of the coverage in accordance with the collective bargaining agreements. The payment is equal to 33% of the annual premium cost of the medical coverage and is paid to the employee through the payroll system on a quarterly basis. In order to receive this compensation, an employee must complete a waiver application and provide proof that they are receiving medical coverage from a different provider. A detailed listing of all employees that have opted to waive their right to coverage is maintained on an Excel spreadsheet. On a quarterly basis, this listing is reviewed for accuracy and forwarded to the Payroll Department to process checks for the applicable employees.

Removal of Employee from Benefits

When an employee is terminated, the Personnel Department is responsible for sending an email to the Employee Benefits Department to inform them of the termination. The Employee Benefits Department will enter any required information into the in-house database and also logs into the provider's database and then either enters the employee's termination directly or completes an enrollment change request form and sends it to the

provider to update its records. Upon termination, employees are eligible to receive medical coverage until the last date of the subsequent month of termination, eligible to receive dental coverage until the first day of the subsequent month, and prescription coverage is cancelled immediately upon termination.

The Employee Benefits Department, upon notification of termination, will send a letter and the required forms to the former employee notifying them of their COBRA rights. COBRA coverage extends to eligible former employees for a period of up to 18 months. The City is only responsible for the handling of COBRA coverage for prescription and dental. If the employee elects to enroll in COBRA for medical benefits, a form containing employee information, including coverage type, is faxed by the City to COBRA ELECT, who is responsible for contacting the employee and handling their COBRA for medical. Each individual's respective health insurance provider is also contacted. If the employee elects COBRA coverage for dental or prescription, they are required to complete a form and along with a check for their first month's payment, return it to the Employee Benefits Department. The Employee Benefits Department uploads the information to the applicable providers in order to change the employee status from active to receiving COBRA. A spreadsheet is also maintained for all employees receiving COBRA to track when their coverage began, ends, and which months the City has received reimbursement from the employee.

Retiree Benefits

Upon employee retirement, a memo is prepared and signed by the applicable department supervisor and sent to the Employee Benefits Department notifying them that an employee is retiring and whether or not they are eligible to receive retiree benefits (25 years or more of service). The department supervisor is responsible to distribute enrollment change forms to the employees, who are responsible for completing them, to present the change of employment status to retiree. The forms are required to be returned to the Employee Benefits Department. The Employee Benefits Department updates the information in its ACCESS system and updates the information for the provider via the internet.

Controls Identified

The following key controls were identified during our review of the payroll and human resource – employee benefits process:

- The Employee Benefits Department must receive a signed general employee information sheet and signed data verification form prior to enrolling an employee in any benefits program.
- The Employee Benefits Department must receive all approved applications and change of enrollment forms prior to enrolling or changing the status of an individual who is already enrolled in the benefit programs.

- The Employee Benefits Department must receive an email sent from the Personnel Department to inform the department of an employee termination or retirement prior to changing the status of an employee.
- The Employee Benefits Department must send out a letter to all terminated employees advising them of their COBRA benefits.
- The Employee Benefits Department must maintain a copy of the provider application to update employee's status to retiree.
- Prior to receiving compensation for a waiver of their benefits, the employee must complete a benefit waiver request form.

Internal Control and Compliance Findings

The following represents the internal control and compliance findings noted during our procedures over the employee benefits process:

COBRA Benefits

Upon notice of termination of an employee, the Benefits Department is required to send a letter to former employees notifying them of their COBRA rights. If the former employee elects to enroll in COBRA coverage, the former employee has 30 days to return the required forms. For COBRA coverage for medical health benefits, the former employees are required to pay the provider directly for their coverage. For COBRA coverage for prescription and dental benefits, the City of Jersey City pays for the COBRA coverage on behalf of the former employees and then bills the former employees for reimbursement. The Employee Benefits Department does maintain a spreadsheet that tracks the names of the former employees, the date coverage began, the date coverage ends, and which months the employee has reimbursed the City. However, there are no dollar amounts included on the spreadsheet. In addition, there is no analysis or reconciliation prepared by the Employee Benefits Department that tracks the amount paid out in total for former employees under COBRA, when the former employee was billed, how much has been reimbursed, and the total accounts receivable due to the City from former employees. This creates a risk that the City will not be reimbursed for the entire amount paid by the City on behalf of former employees who have opted for COBRA coverage.

We suggest the Employee Benefits Department implement procedures to properly track the amounts billed and collected for COBRA coverage paid on behalf of former employees and track the amounts receivable to ensure timely receipt of reimbursement.

Health Benefits Audit

The City recently converted its health benefits from the State Health Plan to Horizon Blue Cross / Blue Shield. Upon termination or change in status, individuals are required to be removed or adjusted for their health insurance coverage. On a monthly basis, the health insurance bills are compared to the terminated employee information to verify that a current termination has been adjusted and the employee has been removed from

coverage. However, there has not been a full review of the monthly provider bills performed to verify that all active or retired employees receiving coverage are eligible and that coverage types are being accurately reported. Since there are so many employees (active and retired) that are receiving health benefits, that have received the opt out payments and the fact that the City recently switched from the State health benefits plan, we would suggest that someone (internal audit or outside firm) perform a health benefits audit to ensure all payments being made are for employees or retired employees that are eligible and that the correct coverage's are included.

Health Benefit Conversion Process and Applications

When the City switched from the State Health Benefits Plan to Horizon BC/BS, they hired an outside consultant to contact all active and retired employees and gather their personal information to submit to Horizon BC/BS. The City has not performed a review or reconciliation of the employees entered by the outside consultant and since the City has not received copies of the original applications from the outside consultant, they have no way to verify that all the employees entered are actual or retired employees of the City of Jersey City.

We suggest the City request that the copies of the applications and other documentation provided to the outside consultant be returned so that the City can verify the employees' appropriate inclusion and retain the documents within the City.

Health Benefit Record Retention for Retired Employees

We noted that the City only maintains health benefit files for retired or terminated employees for 7 years, after which the file is destroyed. When the City switched providers and hired an outside consultant to input the information, it was understood that the outside consultant would input/upload the names of all retirees directly from the State of NJ benefits listing of retirees. However, the City never performed a verification to ensure that the names the outside consultant entered were in agreement with the retirees included on the State of NJ listing. Additionally, since the City does not maintain files for over 7 years, there is no documentation available from the Employee Benefits Department for any of the retirees that retired over 7 years ago. There is no way to determine the dates of retirements for certain retirees or to determine if they are or ever were eligible to receive retirement benefits.

We suggest the City consider performing a verification of the information entered and consider revising the time period to retain the related documentation so that adequate records are maintained in accordance with State of New Jersey record retention requirements.

Strengths

During our procedures, we identified what we believe to be certain strengths in the City's internal controls over the employee benefits process. The following paragraph documents our observed and identified strengths.

The City currently offers three types of distinct benefit coverage to over 3,300 full time employees of the City. The coverage's are offered at no cost to the employee and are fully funded by the City. The City's employees may elect to opt out of receiving medical coverage and are then eligible to receive a payment in lieu of the coverage equal to 33% of the annual premium cost of the medical coverage. During the performance of our testing of the City's employee benefits process, we noted that all employees testing for opting out of receiving benefits had the required forms on file, including a completed waiver application and proof that they were receiving medical coverage from a different provider.

Conclusion on the Effectiveness of Internal Control

Based upon the procedures performed, the findings identified above and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and noncompliance with New Jersey State Statutes and other laws and regulations over the payroll and human resource – employee benefit process as high.

Payroll and Human Resources

Accounting for Accumulated Sick, Vacation, and Comp Time

Overview and Background

Accumulated sick, vacation and comp time allowances are permitted for all bargaining units and other employees within the City. Annual allowances for accumulated sick, vacation, and comp time are either determined by the individual collective bargaining unit agreements or by the adoption of executive orders and ordinances by the Mayor and/or the City Council.

There are several civilian employee bargaining agreements each with slightly different allowances permitted.

Sick time is permitted to be accumulated but employees are not paid for unused sick time.

The current police contract limits the amount of eligible vacation days an officer can accumulate at 60 days (30 days a year for 2 years); while there is no limit for the number of comp days an officer can accumulate. Additionally, upon retirement, each officer is eligible to receive payment for 3.5 terminal days for each year of service.

The current fire department contract limits the amount of eligible accumulated vacation days at 30 days (15 days a year for 2 years), while there is no limit for the number of comp days an officer can accumulate. Additionally, upon retirement each officer is eligible to receive payment for 3 terminal days for each year of service.

As part of our procedures, we developed a high level understanding of the process for accounting for accumulated sick, vacation, and comp time. The following sub-processes were identified as part of the accumulated sick, vacation, and comp time processes:

- Civilian employees
- Police department employees
- Fire department employees

We interviewed all appropriate individuals within the processes and prepared a narrative documenting the processes and controls in place. In addition, we performed internal control and compliance procedures deemed necessary to determine our risk assessment over the processes.

The following presents a summary of observations related to the accounting of accumulated sick, vacation, and comp time process:

Civilian Employees

When a new employee is first established in the payroll system, there are certain criteria that are required to be entered with regard to the number of sick, vacation, comp and personal days that an individual is permitted on an annual basis. Based on this initial information, the payroll system automatically updates on an annual basis with regard to the number of days an employee is eligible to receive. Each department of the City is required to submit employee attendance records to the Payroll Department on a bi-weekly basis. This information is then entered into the payroll system to update the number of available days an employee has accumulated. On a quarterly basis, the Payroll Director generates an accrual report that lists each employee, the number of days carried over from the previous year, the number of days allowed in the current year, and the number of days taken in the current year. This report is broken out by department and submitted to each department supervisor for their review and approval. The department supervisors are required to review the report and submit it to the Payroll Department with any changes that are deemed necessary. Any changes are reviewed and investigated by the Payroll Department and corrected if deemed appropriate.

Uniform Police Officers

The district commander of each police station is responsible for keeping track of the records of their respective officers by using a log book that tracks the information of each officer's permitted and taken vacation and comp time. All vacation and comp time that an officer is granted annually and uses is recorded in this log book manually and a running balance of available days is maintained. In January of each year, every officer is required to review the attendance log book and sign the book to certify that they agree with the information included. Upon retirement of a police officer, the pages in the log book are forwarded to the Police Department Fiscal Bureau for review. The Fiscal Bureau reviews and verifies that the number of days appear to be accurate and performs a calculation, based on their current salary, to determine the total amount of liability owed to the officer.

Uniform Fire Fighters

The Fiscal Bureau of the Fire Department is responsible for maintaining the records of the uniform firefighters in a specialized attendance software program that tracks employee attendance. Each year, the Fiscal Bureau reviews the collective bargaining agreement and enters the number of vacation, sick, and comp days that each firefighter is eligible for into the proprietary software system. Each January, a firefighter either completes a "request for vacation" form or a "request to bank days" form. These forms must be presented for approval to the Battalion Chiefs, Deputy Chief and Chief of the Fire Department. Upon approval, it is submitted to the Fiscal Bureau so that the information can be entered in the attendance program. If an employee wishes to take a

COMP day, they must complete a form and have it approved by the same individuals listed above. Each day the Fire Chief is required to complete a daily manpower form which specifically identifies each fire fighter that is out for the day. This form is sent to the Fiscal Bureau and information for individuals who are out is updated in the attendance program. In January of every year, a report is generated for each firefighter to show them their balance of accumulated comp and vacation time. These reports are distributed to each firefighter for review and if any discrepancies are noted, the information is communicated back to the Fiscal Bureau to be corrected. Upon retirement, the Fiscal Bureau prints out a report of the total accumulated time and performs a calculation, based on their current salary, to determine the total amount of liability owed to the firefighter.

The following key controls were identified during our review of the payroll and human resource – accumulated sick, vacation and comp time processes:

- Quarterly and annual reports are prepared by the payroll department and are reviewed and approved by the department supervisors.
- Police and Fire departments maintain and update records for all uniformed employees accumulated time.
- Annual report is generated by the payroll department to include total number of days accumulated by all City employees.

Internal Control and Compliance Findings

The following represents the internal control and compliance findings noted during our procedures over the accounting of accumulated sick, vacation, and comp time processes.

Quarterly and Annual Report Preparation

We noted that the quarterly and annual reports that are distributed to the individual departments are only being returned to the payroll department if any errors are noted. Additionally, upon receipt and correction of the returned forms, the payroll department discards the information. We suggest that the payroll department request copies of all forms be returned and retain them to ensure that supporting documentation exists to show that all employees accumulated time has been reviewed and approved. We noted that the annual sick, vacation and comp time report prepared by the Payroll Department is generated on a calendar year basis and not on a fiscal year basis. The City should consider generating this report at June 30 of each year to coincide with the information that is needed for the City's annual budget and disclosure in the annual audit. Additionally, we noted that this report only includes information for civilian employees. The Police and Fire Departments track their own accumulated vacation and comp time and are not required to report them to the Payroll Department. In order to provide for more consistent reporting and maintain a complete record of all accumulated sick, vacation and comp time of the City, we suggest all departments be required to submit a report of its accumulated sick, vacation and comp time at the end of each fiscal year to the Payroll Department. This would provide the City the ability to calculate the total liability at the end of each year that can be used for audit purposes as

well as provide a better estimate of funds needed in the annual budget as employees reach retirement.

Police Department Records

We noted that all accrued comp and vacation time for police officers is tracked by each police district in individual “memo” pads that are maintained at each station. The individual stations are not required to reconcile these memo pads on an annual basis or report the information to the fiscal bureau for the police department. As a result, no summary of time owed to the officers in each district is prepared and therefore no summary of the time owed to all officers is prepared. Therefore, there is no City record available that accurately accounts for the total City-wide liability for accrued comp and vacation time. We suggest the City implement procedures to require a more accurate accounting of police vacation and comp time and that a summary report be prepared annually and provided to the Payroll Department for review. This would ensure more accurate record keeping and that employees who retire receive the proper payment for their accumulated vacation and comp time.

Fire Department Records

We noted that all records for firefighters accumulated comp and vacation time is centralized and handled at the Office of the Fiscal Bureau of the fire department. However, we noted that the Bureau only tracks the number of days and hours owed to each fire fighter. The amount owed to a firefighter for their accumulated comp and vacation time is only calculated upon retirement. Therefore, there is no City record available that accurately accounts for the City-wide liability for accrued comp and vacation time. We suggest the City implement procedures to require a more accurate accounting of fire fighter vacation and comp time and that a summary report be prepared annually and provided to the Payroll Department for review. This would ensure more accurate record keeping and that employees who retire receive the proper payment for their accumulated vacation and comp time.

Conclusion on the Effectiveness of Internal Control

Based upon the procedures performed, findings identified and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and noncompliance with New Jersey State Statutes and other laws and regulations over the accounting of sick, vacation, and comp time process as high.

General Fiscal Operations

Budget Process

Overview and Background

The City is a state fiscal year municipality operating with a fiscal year end of June 30. The City follows the requirements of New Jersey Statute 40A:4 (Local Budget Law) in preparing and submitting its budget for adoption by the City and approval by the State of New Jersey. The City is required to have its budget reviewed annually by the State of New Jersey, Department of Community Affairs, Division of Local Government Services. 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 State. 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 and other procedures deemed necessary in order to determine our risk assessment of the budget process.

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

Revenues

On an annual basis, the City prepares an annual budget in accordance with N.J.S.A. 40A:4. During the annual budget preparation process, a notification letter is sent from the Budget Department to each individual department to request an estimate of the amount of anticipated revenue for the upcoming year and any anticipated grants that the departments are applying for. Once the letters have been received by the Budget Department, the information is entered into the state budget document. In addition, the Budget Director, the CFO and the City Comptroller review all of the reserve accounts reported by the City to determine if accounts are still active and need to be maintained or if any are no longer valid and the amounts could be cancelled, potentially resulting in revenues to be anticipated in the budget. The amount of revenue from the individual departments is not permitted to be in excess of the prior year amount realized without consent of the Director of the Division of Local Government Services. Once the appropriations have been determined, the amount required for the amount to be raised by taxation is determined and entered into the budget. The CFO and the Budget Director perform the required tax "Cap" calculation to ensure that the tax revenue anticipated does not exceed the required amount permitted by statute. After the final appropriations have been determined and the "CAP" calculation has been performed, the revenue amounts are

adjusted accordingly for the introduced budget. Between the time of the introduction of the original budget and the adoption of the final budget, any new revenues that are identified (i.e. grants or miscellaneous) are entered into the budget document. A budget amendment resolution is prepared and submitted to the City Council (“the Council”) for approval. Once the City has determined they have received all of the final revenues and the final appropriations have been established (see procedures listed below) the final budget is prepared for public hearing, State approval and City adoption.

Appropriations

The annual budget is prepared by the Budget Department, specifically by the Budget Director. During the budget preparation process, the Budget Department prepares a package for each fiscal officer and department director in the City, which includes a copy of the updated budget manual, directions for entering data into the H&L budget system, and a printout of all employees with their current salaries for the respective departments. This listing is distributed to the individual departments by May 1st of each year. Each director or fiscal officer is required to enter the budget requests for their departments in the H&L system, which has a special budget preparation program. The departments are required to enter their information and notify the Budget Department within 3 weeks from receipt of the packages. After the Budget Department receives notification that the information has been entered, a meeting is established with each department director and fiscal officer to discuss the requested appropriations. Each meeting also requires the presence of at least one of the City’s Assistant Business Administrators. Each department’s budget request is reviewed for accuracy and a determination is made if any cuts or additional appropriations are necessary. Based on the results of the department meetings, the Budget Director enters the H&L system, updates the information and prints a budget workbook report. This report is presented to the Mayor for review. Any necessary changes are reported back to the Budget Director and the H&L system is updated.

Once the Mayor’s request has been finalized, the information is entered into the State budget document. The budget must be introduced to the Council during an official public meeting (should be by August 10th of each fiscal year) and sent down to the State of New Jersey within three days of introduction. Additionally, a date for the required public hearing is set and the budget advertisement is sent to the applicable designated newspapers. After the Council has approved the introduction of the budget, individual meetings with the members of the Council, the department directors and fiscal operators are established to further discuss the budget. Any changes are reported back to the Budget Director to update the budget workbook in the system. The workbook is reprinted and distributed to the Council, and upon approval, the CFO and the Budget Director perform the final tax levy and appropriation “CAP” calculations to ensure the final budget amount is within the calculation. A budget amendment resolution is prepared and submitted to the Council for approval at an official meeting. Once approved, the information is entered into the State budget document. Additionally, prior to adoption, the City must address any issues that the State identified during their review of the introduced budget and must obtain State approval prior to adoption of the budget

by the City. The City of Jersey City is under State review and is required to have a State review performed annually. The adopted budget must then be presented to the Council and adopted by the Council (should be by the statutory due date of September 20th) and sent down to the State of New Jersey Division of Local Government Services.

Entering Information into Accounting System

Once a temporary budget resolution has been prepared and approved by the Council, the amounts are entered into the appropriation report in the accounting system by the Budget Department. The internal budget report is then reviewed by the CFO to ensure the numbers were correctly input. Until the final budget is adopted, each time the temporary budget needs to be increased, a resolution is approved by the Council and the information is updated in the accounting system. Once the final budget has been adopted, the Budget Director enters the final figures into the accounting system. After the budget has been adopted, if the City receives notice of additional revenues with offsetting appropriations, Chapter 159's, or emergency appropriations have been authorized, the Budget Department records the information into the accounting system to update the budget. As in the case with the temporary budget, the CFO reviews the budget report to ensure the information has been correctly entered.

Appropriation Transfers

Current year appropriation transfers may only be made from the current year budget during the months of May and June of the fiscal year and if the transfers are to be made from the reserve budget, they must be made during July, August and September of the fiscal year. If a department wishes to request a transfer of funds, the fiscal officers monitoring their accounts notify the Budget Department. The fiscal officers email the Budget Department to inform them of the potential need for a transfer. The Budget Department determines if the transfer is required and where the transfer will be made from. A resolution is prepared by the Budget Department and presented to the Council for approval. The Council is required to vote and once the transfers have been approved, the Budget Department records the transfer into the accounting system.

Controls Identified

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

- The Budget Director reviews and approves budget request forms received from various departments.
- Individual reserve accounts are reviewed by the Budget Director, CFO and Comptroller to determine if accounts are no longer valid and can be cancelled and anticipated as revenue in the budget.
- Mayor reviews and approves prepared budget document prior to introduction.
- Introduced and final budgets are approved by the City Council at a public meeting.
- Budget is submitted to the Division and reviewed prior to City adoption.

- Any review notes from the Division are addressed and corrected prior to the adoption of the budget.
- Council reviews and revises budget and approves amounts prior to adoption.
- Budget is approved by the City Council at a public meeting after a public hearing.
- Approved budget amounts are entered into the accounting system to setup up the appropriations for spending. Approved budget reconciled to accounting system after final adoption.
- Budget transfers are only permitted in the last two months of the current year and first three months of the subsequent year and must be approved by the Council.

Internal Control and Compliance Findings

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

Adoption of the Annual Budget

Pursuant to N.J.S.A. 40A:4-10, the annual budget is required to be adopted no later than September 20 of the State Fiscal Year. However, during our review of the adopted annual budgets for the 2006/07 and 2007/08 fiscal years, we noted that the City did not adopt its annual budgets by the statutory due dates, as required by the State of New Jersey. We suggest that the City increase its efforts to ensure that the annual budget is adopted and approved by the statutory due dates.

Budget Transfers

During the last two months of the fiscal year and the first three months subsequent to the fiscal year, the City may perform transfers of appropriations or appropriation reserves by approval of Council resolution. However, we noted that the City is not currently utilizing any standardized request for approval forms for budgetary transfers that would include the signatures of the requesting department and any required supervisory approvals. Email or verbal requests are received by the budget department in order to process transfers of funds. We suggest the City consider implementing standardized transfer request forms that should be filled out by the requesting department and signed by the department supervisor that is requesting the transfer and then forwarded to the budget department. The budget department should review the request and it should be signed by an appropriate supervisory employee assigned prior to being placed on the Council meeting agenda and entered into the system.

Current Fund Reserves

During our review of the 2008 audit report and follow up with the City Comptroller, we identified several current fund reserves that have been inactive or appear to be accounted for in the incorrect fund. Certain of these reserves should be maintained in either the Trust Fund or the General Capital Fund. We suggest the City review the reserves for validity and based

upon its findings, should either transfer the reserve to the applicable fund or cancel the reserve and anticipate it as revenue in the adopted budget.

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 highlights our observed and identified strengths and are discussed as follows.

The City's annual budget process begins May 1st of each calendar year and involves the Budget Department as well as all of the City's departments. During our review of the budget process, we noted that the City Council properly introduced the proposed 2008 budget at a public meeting, sent a copy to the New Jersey Department of Community Affairs, Division of Local Government Services, announced the proposed budget to the taxpayers in a public meeting upon receiving the State's approval, and adopted the budget at a public meeting of the Council after approval by the State of New Jersey. Throughout the budget process and upon entry of the final budget, the Chief Financial Officer reviewed the input of the budget to ensure the accuracy of the budget in the system. In addition, all appropriation transfers tested were approved by the City Council prior to entry of the transfer in the system.

Conclusion on the Effectiveness of Internal Control

Based upon the procedures performed and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and noncompliance with New Jersey State Statutes and other laws and regulations over the budget process as low.

General Fiscal Operations

Revenue and Cash Receipts

Overview and Background

A significant portion of the City's revenues are derived through the collection of taxes. The Tax Department is comprised of the tax assessor, tax collector, two assistant tax collectors and several tax collection clerks. The Tax Department is responsible for the billing and collection of property taxes.

In addition to tax receipts, the City also receives money from various outside departments through the issuance of permits, licenses, program fees, etc. Some of the more significant outside departments in terms of revenues include the Office of the City Clerk, the Department of Recreation, the Department of Health and Human Services, Department of Police, Department Fire & Emergency Services and the Department of Housing, Economic Development & Commerce, as well as State and Federal aid. All cash receipts received from outside departments are sent to the Division of Treasury and Debt Management for inclusion in the daily deposit and to the Division of Accounts and Control for recording in the general ledger.

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

- Tax billings
- Delinquent taxes
- Tax collections and deposits
- Tax refunds / credits
- Outside department cash receipts
- Outside department deposit of cash receipts
- Recording of revenue and cash receipts

We interviewed all appropriate individuals within the processes and prepared a narrative documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes of the revenue and cash receipts applications. 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 processes:

Tax Billings

The City uses an H&L software application for the tax billing process. For property tax billings, the City receives the yearly tax rate from the County of Hudson normally between the end of July and the beginning of October. As a result of there being estimated payments due prior to the mailing of certified tax billings, the Tax Assessor calculates the estimated tax due based upon the estimated budget for a half of the year, which is then halved for each quarter. The assessed value is multiplied by the tax rate to arrive at the tax charged to each taxpayer. Once the tax rate is received, the Tax Assessor verifies that all taxpayers are included within the system and that the tax rates have been updated based upon the county certified tax rate. Once the updates have been performed, all required adjustments to the tax billings are made. Payments are due quarterly on August 1st, November 1st, February 1st, and May 1st of the City's fiscal year.

Delinquent Taxes

There is a 10-day grace period by City resolution for delinquent property taxes. If the tax bills are mailed out too close to the due date, the normal 10-day grace period is extended to 25 days from the mailing date of the bills. 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. There is a tax sale held once a year as mandated by the State and is normally an accelerated tax sale. All properties with delinquent taxes at May 31st are subject to an annual tax sale held in June of that fiscal year with the exception of any properties with a bankrupt owner or a court order.

Tax Collections and Deposits

Property tax payments can be received at the window in the Tax Collector's Office, through a credit card payment online, through payments received in the mail, or through payments made to the City's lockbox. In all methods of payment, the payment is verified to the tax stub and tax amount due in the system to ensure that the payment was appropriate. Upon verifying the payment is accurate, the tax payment is entered into the H&L software application and included within the total daily cash receipts on a daily advice of deposit / revenue collection report. At the end of each day, each clerk reconciles their cash registers. The cash receipts are stored overnight in a vault. The following day, a deposit ticket and an advice of deposit / revenue collection report are created and reconciled to the cash receipts by a clerk. The deposit ticket and cash receipts are deposited in the bank.

Tax Refunds / Credits

The Tax Collectors Office has the ability to issue refunds or credits on taxes. The refunds or credits typically result from an individual appealing their tax assessments and

receiving a judgment in their favor, an adjustment to their bill occurring during the fiscal year, or the taxpayer overpaying their taxes. The Assistant Tax Collectors investigate all refunds and credits. All payments of refunds must be approved by the Tax Collector, the Business Administrator, and the City Council through a resolution.

Outside Department Cash Receipts

The more significant outside departments of the City include the Office of the City Clerk, the Department of Recreation, the Department of Health and Human Services, Department of Police, Department Fire & Emergency Services, and the Department of Housing, Economic Development & Commerce. The outside departments assign employees with cash receipts responsibilities. The responsibilities include accepting cash receipts, providing a receipt for the cash receipt to the payer, and reconciling the daily cash receipts. Each of the outside departments is required to ensure that the employee performing the cash receipts procedures is properly identified as the cashier for the cash receipts transactions. As a cash receipt transaction occurs, an employee verifies that the cash receipt is the proper amount based upon the fee or receivable related to the transaction and provides the payee a receipt for the cash receipt. On a daily basis, the cash receipts for each of the outside departments are summarized on a daily cash receipts report and reconciled to the cash and / or checks received that day. The daily cash receipts report is reviewed and approved by a supervisor, and then the daily cash receipts report, along with the daily cash receipts are forwarded to the Division of Treasury and Debt Management for deposit.

Outside Department Deposit of Cash Receipts

The Division of Treasury and Debt Management deposits all cash receipts from departments other than the Tax Collector's department. The Division of Treasury and Debt Management receives the daily cash receipts and the related daily cash receipts report, which summarizes the cash receipts by type of receipt and assigns the appropriate revenue account code. Upon receipt, a clerk in the Division of Treasury and Debt Management compares the daily cash receipts report to the cash receipts received. All differences, if any, are reconciled, the daily cash receipts report is approved, a deposit slip for the daily cash receipts is prepared and the daily cash receipts and related deposit slip are sent to the bank by the City messenger. A clerk in the Division of Treasury and Debt Management forwards the daily cash receipts report and a copy of the deposit slip to the Division of Accounts and Control for recording in the general ledger.

Recording of Revenue and Cash Receipts

Tax Collector

Once the Tax Collector's cashiers verify the appropriateness of the cash receipts, the cashiers post the cash receipts to the H&L software application. The posting of the cash receipts in the application are to the sub-ledger taxpayer accounts. Once the cashiers have reconciled the cash registers, the cash receipts are listed on a deposit slip and

summarized on an advice of deposit / revenue collection report. The advice of deposit / revenue collection report and a copy of the deposit slip are provided to the Division of Accounts and Control for posting to the general ledger. Upon receipt of the advice of deposit / revenue collection report, the Division of Accounts and Control posts the daily cash receipts to an undistributed revenue account.

On a monthly basis, the Tax Collector prints out a Monthly Cash Summary Report, a summary report of the month's daily deposits. The Tax Collector forwards the Monthly Cash Summary Report to the Division of Accounts and Control for posting of the cash receipts to the appropriate general ledger receivable and revenue accounts. Upon receipt of the report, a clerk within the Division of Accounts and Control verifies that the report reconciles to the total postings to the undistributed revenue account throughout the month. All differences are reconciled with the Tax Collector's Office. Once all differences have been reconciled, the clerk posts the monthly cash receipts to the appropriate revenue and tax receivable accounts and reverses the undistributed revenues account balance.

Outside Departments

Once the Division of Treasury and Debt Management completes the review and deposit of the outside department cash receipts, the daily cash receipts report and a copy of the deposit slip are forwarded to the Division of Accounts and Control for recording to the general ledger. Upon receipt, a clerk within the Division of Accounts and Control verifies that the deposit was made and that the outside department cash receipts were coded to the appropriate general ledger accounts. Once the clerk in the Division of Accounts and Control determines that the cash receipts are appropriately coded, the cash receipts are posted to the general ledger cash and revenue or receivable general ledger accounts. The Division of Accounts and Control certifies the appropriateness of the outside department's cash receipts.

Controls Identified

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

Tax Collector

- The Tax Assessor verifies that the tax rates provided by the Hudson County Board of Taxation are properly uploaded to and included in the tax duplicates and recorded to the tax accounting system.
- Tax Collector's Office Cashier verifies that the tax cash receipt received via the window is in agreement with the City's tax payment stub.
- Tax Collector's Office Clerk verifies that the credit card payments are in agreement with the tax billing for the respective block and lot.

- Tax Collector's Office Clerk verifies that the tax cash receipt via mail and / or the City's lock box account is in agreement with the tax billing for the respective block and lot.
- Assistant Tax Collectors verify all refunds or credits to the supporting State or County Tax Appeal Judgments for validity.
- All refunds must be approved by the Tax Collector, the Business Administrator, and the City Council through a Resolution.
- The Tax Collector's Department ensures that all deposits are made within 24 hours of receipt.
- All cancellations must be approved by the City Council through a Resolution.
- System automatically applies cash receipts to outstanding interest and then the oldest outstanding principal tax payment due.
- System automatically calculates the appropriate penalties and interest on delinquent taxes based upon the receipt date of the cash receipts.
- The Division of Accounts and Control reconciles the undistributed revenue account to the Tax Collector Monthly Report on a monthly basis.
- Bank reconciliations are performed timely and accurately and are reviewed by an appropriate supervisor.

Outside Departments

- A Cashier, Clerk, or Supervisor verifies that the fees charged are appropriate.
- A Cashier, Clerk, or Supervisor reconciles a daily cash receipts report to the daily cash receipts.
- The Division of Treasury Clerk verifies that the daily cash receipts are in agreement with the daily cash receipts report.
- The Treasury Department ensures that all deposits are made within 24 hours of receipt.
- A clerk within the Division of Accounts and Control certifies that all deposits were properly made and that the appropriate revenue or receivable general ledger account was utilized.

Internal Control and Compliance Findings

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

Tax Collector Cash Receipts

During our procedures related to the Tax Collector's Office, we noted that there are several clerks or cashiers that collect tax fees on a daily basis and these receipts are posted to the tax receipts system, which is a stand-alone system separate from the City's general ledger system. The tax receipts posted are reconciled daily at the tax office and a daily revenue collection report is generated and a copy of the report is sent to the Division of Accounts and Control for posting to the general ledger. The Division of

Accounts and Control posts this information to an undistributed revenue account until month end. At the end of each month, a cash summary report is generated and the Division of Accounts and Control uses this report to post all tax transactions to the proper revenue code. In our discussions with management and the performance of testing procedures, we noted that the City's tax cash receipts system is not fully integrated with the City's general ledger. As a result, we noted that this results in additional time and work for the Division of Accounts and Control to post and reconcile the cash receipts and revenues of the Tax Collector's Office at the end of each month. In addition, we noted that the current procedures occasionally result in unidentifiable differences that are eventually closed directly to operations. However, we were informed that the differences are not normally material in nature.

We suggest that the City consider the integration of the Tax Collector's Office cash receipts/revenue system with the City's general ledger to reduce the additional time and work required by the Division of Accounts and Control as well as reduce the rate of occurrences related to unidentifiable differences.

Department of Health and Human Services Cash Receipts

Pursuant to the *N.J.S.A. 40A:5-15*, all moneys, including moneys 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, or be deposited to the credit of the local unit in its designated legal depository. In reviewing the June 30, 2008 audit report, we noted that the Department of Health and Human Services does not always deposit receipts within the 48 hours.

We suggest that the Department of Health and Human Services strengthen the controls surrounding the deposit of all moneys collected within 48 hours of receipt in accordance with the State of New Jersey's Local Public Contracts Law (*N.J.S.A. 40A:5-15*).

Office of the City Clerk's Reporting and Remittance of Marriage Licenses

The Office of the City Clerk issues Marriage and Civil Union licenses and certified copies of Marriage Licenses and Marriage Applications, issues Burial Permits and certified copies of Death Certificates, performs searches for these records, collects fees for the performance of Marriage Ceremonies by the Mayor or Deputy Mayor, and collect franchise fees. The Office accepts cash for the Marriage and Civil Union related transactions and checks for the Burial related transactions. On a quarterly basis, the Office of the City Clerk must remit twenty-five dollars to the State of New Jersey for every marriage license issued as well as ten dollars to the State of New Jersey for every burial permit issued.

In reviewing the June 30, 2008 audit report, we noted that the Office of the City Clerk issued marriage licenses for ceremonies performed outside of the City but did not report or remit payment to the State for these licenses.

We suggest the Office of the City Clerk implement procedures and controls to ensure all required fees are collected, reported and remitted to the proper agencies.

Office of the City Clerk Daily Cash Receipts

The Office of the City Clerk has a number of clerks that collect fees as a cashier. Each clerk in the Office of the City Clerk must log into a cash register with an individual cashier code prior to collecting cash receipts. As each cash receipt is received, the cashier logs the cash receipt into the register and provides a money receipt. On a daily basis, a designated clerk prepares the daily cash receipts summary for all cash receipts based upon the cash register tapes and then verifies the daily cash receipt summary to the total of the cash receipts. Once in agreement, the designated clerk approves the daily cash receipt summary and submits the daily cash receipts summary along with the cash receipts to the Treasury Department for deposit. The Treasury Department verifies that the cash receipts are in agreement with the daily cash receipts summary, deposits the cash receipts, and forwards the daily cash receipts summary to the Division of Accounts and Control for posting to the general ledger. The Accounts Control Department then affirms that the daily cash receipts summary received from the Treasury Department is in agreement with the daily cash receipts summary maintained in the Office of the City Clerk and reconciles any differences prior to posting the cash receipts to the general ledger.

In performing testing of controls over the Office of the City Clerk's cash receipts, we identified instances where the cash receipts per the Office of the City Clerk copy daily cash receipts summary and money receipts were not in agreement with the cash receipts recorded per the Division of Accounts and Control copy of the daily cash receipts summary. In the instances identified, the change in the cash receipts resulted directly from a reduction in the amount of physical cash received. Clearly, there were different versions of the daily reports received and retained in the Division of Accounts and Control as compared to the copies maintained at the Clerk's Office. We also reviewed the June 30, 2008 and June 30, 2007 audit reports noting the same finding reported in each. Per further inquiry, we were informed that an investigation is ongoing in an attempt to determine the cause of the discrepancies and additional internal controls were implemented in the second half of the 2008 fiscal year.

We suggest that the City continue to investigate the cause and reassess controls in place to prevent these occurrences from happening in the future. The Clerk's Office should also enforce and monitor the additional internal controls already implemented during the second half of the 2008 fiscal year.

Building Department Permit Files

In all instances in which an individual or a company wants to perform any type of construction, a technical sub-code form must be completed and approved by the Building Department. The City has multiple types of technical sub-code forms for the various types of construction. The individual or company must submit two sets of plan drawings along with the technical sub-code form(s) to be reviewed. Upon approval, a permit is issued and the Building Department maintains a copy of the permit along with all the project information in a folder. In reviewing the June 30, 2008 audit report, we noted that the Building Department could not locate permit files for testing.

We suggest that the Building Department ensure all permit files in support of the approved project be retained to ensure that the City's approval of construction activity is properly supported.

Building Department Daily Cash Receipts

On a daily basis, a cashier within the Building Department prepares a daily receipts collection form based upon the cash receipts collected in the cash register. The cashier then prints an account summary detail report from the system, which details the daily cash receipts, and reconciles the report to the cash receipts received per the daily receipts collection form. The cash receipts and the daily receipts collection form are then forwarded to the Treasury Department for deposit. A clerk in the Treasury Department reconciles the cash receipts received to the daily cash collections form, approves the daily cash collections form, deposits the cash receipts, and forwards the daily receipts collection form to the Division of Accounts and Control for posting to the general ledger. In reviewing the June 30, 2008 audit report, we noted that the independent auditors identified several Building Department daily receipts collection forms were altered and there was no reason identified or approval for the adjustments.

We suggest that the Building Department ensure that all adjustments to the daily receipts collections forms are properly documented with the purpose of the adjustment as well as ensure that the adjustment is properly reviewed, authorized and approved.

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 paragraphs that follow.

A significant portion of the City's revenues and cash receipts are derived from the City's tax collection process. During our review of the cash receipts process relating to the collection of taxes, we noted that the City's tax billings are reconciled to the tax duplicates and County certifications. The City utilizes the H&L software package to calculate and bill its property taxes based on certain input provided by the City. The City inputs the annual tax rate, as determined by the County, into the H&L system. Based on

this source of data, the H&L system automatically calculates the property taxes owed for each applicable resident of the City and bills them accordingly. The software also automatically calculates all interest payments due on delinquent taxes 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 cash receipts process, we did not note any exceptions whereby the taxes due was not properly calculated, the tax payment received was not properly posted in the subsidiary ledger, or the deposit was not made timely. 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. We did not note any exceptions during our property tax testing that would lead us to believe that property taxes are not being billed or collected in an appropriate manner.

In addition to Tax Department cash receipts, the City receives money from various outside departments. In performing testing procedures over the Office of the City Clerk cash receipts process, we noted that the Office of the City Clerk received a finding in the June 30, 2007 audit which stated that the cash receipts deposited were not in agreement with the daily cash receipts form on file in the Office of the City Clerk for the corresponding cash receipt date. In all instances the deposit of cash receipts was lower than the cash receipts reported on the daily cash receipts form. We also identified this issue during our testing procedures during the engagement in the first half of the fiscal year. In response to this finding, we noted that the Office of the City Clerk implemented an additional compensating control providing for an additional level of review and approval to prevent the occurrence in the future. We also noted that following the date of the implementation of this additional control, based upon the items tested, we did not identify any further instances of this finding. The City was proactive in addressing this risk and took timely and appropriate action to address the identified risk.

Conclusion on the Effectiveness of Internal Control

Based upon the procedures performed, the results obtained and the findings noted above, we have assessed the level of potential risk relating to internal control deficiencies and noncompliance with New Jersey State Statutes and other laws and regulations over the revenue and cash receipts processes as medium.

General Fiscal Operations

General Ledger Maintenance

Overview and Background

State regulations require that the City maintain a general ledger accounting system. The City performs certain procedures on a daily, monthly and year end basis in order to ensure that the information presented in the general ledger is accurate. The City Comptroller is ultimately responsible for the accuracy of the general ledger and reviews and approves the reconciliations performed by the various employees in the Division of Accounts and Control. At the end of the year, monthly reconciliations are prepared in addition to certain additional year-end closing procedures. These year end procedures are reviewed and approved by the City Comptroller as well as the posting of any year-end closing journal entries. After the year has been closed out, the City Comptroller 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 Comptroller and approved by the CFO. This unaudited annual financial statement is sent to the Division for review and portions are compared to the submission of the City’s annual 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 other procedures that we deemed appropriate in order to test the process relating to general ledger maintenance and determine our risk assessment.

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 Treasury Department. Copies are maintained in the Treasury Department and the originals are forwarded to the Division of Accounts and Control. Various employees of the Division of Accounts and Control are responsible for the reconciliation of their respective bank statements. Each responsible employee prints the necessary trial balances in the accounting system for the respective funds for the purpose of reconciling that fund’s cash balances. The employees compare the bank reconciliation to the trial balance. If any errors are identified, they are investigated by the person responsible for preparing that particular reconciliation. Once the reconciliation’s are prepared and finalized, they are given to the City Comptroller for his review and signature of approval. All trial balances are then reviewed by the Comptroller or Assistant Comptroller to determine that inter-fund balances are in agreement and all balances appear reasonable. The Comptroller or Assistant Comptroller also print the budget appropriation, appropriation reserves and revenue reports and

reconcile them to the general ledger to ensure they are in agreement. The Assistant Comptroller maintains a database program in which he tracks an analysis of all grant receivable and reserve balances on an excel spreadsheet. Each month he reviews the appropriation reports and a cash receipt report and updates his detailed spreadsheet accordingly. Once updated, the detailed spreadsheet is compared to the general ledger to ensure the total in the general ledger is in agreement with the detailed grant analysis. The Tax Collector is responsible for preparing all the daily tax collection deposits and depositing them directly. A copy of the deposit slip is sent to the Division of Accounts and Control to inform them of the total amount of the deposit. All of the daily tax collector deposits are posted to an undistributed revenue account as noted in the Revenue and Cash Receipts section of this report. On a monthly basis, the Tax Collector reviews the cash receipt reports and reconciles them to the totals posted in the general ledger. Once the Tax Collector has reconciled the monthly receipts, a notice is sent to the Division of Accounts and Control informing them of the breakdown of the monthly receipts. The Assistant Comptroller posts a journal entry to reallocate the cash receipts to the appropriate revenue accounts.

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 fiscal year, the Division of Accounts and Control send memos to all the custodians of petty cash funds requesting them to close the funds and return any remaining cash to the City. Upon receipt of cash and receipts documentation, the Division of Accounts and Control records the entries to charge out the applicable expenditures and close the petty cash account in the general ledger. The Division of Accounts and Control also prints out a listing, by department, of current year and prior year open purchase orders and contracts/accounts payable. This list is sent to each department for review. Each department is responsible to inform the Division of Accounts and Control of any items that are no longer necessary and if there any items that need to be recorded before year end. When the Division of Accounts and Control receive 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. Journal entries are made in the current fund to realize revenue from the return of prior year inter-funds and to establish current year inter-funds. In addition to the standard entries required for the Tax Collector receipts, the Tax Collector sends over the final year end tax proof. Journal entries are made by the Assistant Comptroller to reconcile the taxes receivable balances in the general ledger accounts with the Tax Collector's final year end 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 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, members of the Division of Accounts and Control prepare the Unaudited Annual Financial Statement (“AFS”). Certain individuals in the Division of Accounts and Control are responsible for preparing certain schedules. Once each schedule has been completed, a final copy of the entire AFS is printed and reviewed by the City Comptroller. Once the Comptroller has reviewed and approved the AFS, it is forwarded to the CFO for review. Once the CFO reviews and approves the document, the CFO signs the applicable pages and submits the AFS to the Division. The AFS is prepared internally by the City without any involvement from the external auditors. We noted very few adjustments from the AFS to the balances reported in the independent auditor’s report.

Controls Identified

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

- The City Comptroller reviews and approves the monthly reconciliations used in the monthly and year-end close processes.
- The City Comptroller reviews and approves all bank reconciliations.
- All trial balances are reviewed by the City Comptroller or Assistant Comptroller to determine that inter-fund balances are in agreement.
- On a monthly basis, the Tax Collector reviews the tax department’s receipts and reconciles them to the general ledger, which is then reviewed and approved by the Assistant Comptroller and then any required journal entries are posted to the general ledger.
- All open purchase orders and contracts are reviewed by their respective department to determine which should be cancelled or if any unrecorded liabilities exist.
- All funds are reviewed to determine the interest earned during the year.
- The Tax Collector prepares a final tax proof which is reviewed and approved by the Assistant Comptroller and then any required journal entries are posted to the general ledger.
- All accounts are reviewed for accuracy and are either closed to operations or reconciled to subsidiary records by the Division of Accounts and Control.
- The AFS is reviewed and approved by the City Comptroller and the Chief Financial Officer prior to being submitted to the Division.

Internal Control and Compliance Findings

We did not identify any internal control or compliance findings during our procedures relating to the general ledger maintenance process.

Strengths

During our procedures we identified what we believe to be certain strengths in the City's internal controls over the general ledger process. These are discussed in the paragraph that follows.

The general ledger is primarily maintained by the Division of Accounts and Control. The accuracy of the general ledger for monthly and annual reporting is dependent on the procedures and controls in place in the Division of Accounts and Control. During our review of the City's general ledger maintenance process, we noted that all of the monthly account reconciliations performed on a monthly and annual basis, which includes all of the City's bank reconciliations, are properly reviewed and approved. The inter-fund account balances are also appropriately reconciled to ensure the balances between funds are in agreement. All journal entries are properly reviewed and approved prior to entry in the system. The Division of Accounts and Control and Chief Financial Officer reviews and approves the AFS ensuring that all balances are properly supported in the general and subsidiary ledgers.

Conclusion on the Effectiveness of Internal Control

Based upon the procedures performed and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and noncompliance with New Jersey State Statutes and other laws and regulations over the general ledger maintenance process as medium.

General Fiscal Operations

Banking and Investment Policies

Overview and Background

Each municipality in the State of New Jersey is required to approve 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.

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

The CFO is the designated official who is required to authorize the deposit or investment in the funds referred to in the approved plan. The plan is also required to identify certain approved institutions in which all public funds covered under the plan are to be deposited. According to N.J.S.A. 40A:5-14, 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 CFO 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.

Controls Identified

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

- The City Council approved a Cash Management plan that established parameters around the types of permissible investments and approved institutions.
- CFO 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.

Cash Management Plan

Pursuant to Local Fiscal Affairs *N.J.S.A. 40A:5-14*, each local unit is required to adopt a cash management plan and must deposit, or invest, or both deposit and invest, its funds pursuant to that plan. The cash management plan is required to include at least the following:

- the designation of a public depository or depositories as defined in section 1 of P.L. 1970, c/236 (C.17:9-41) and may permit deposits in such public depository or depositories as permitted in section 4 of P.L.1970, c.236 (C.17:9-44);
- the designation of any fund that meets the requirements established pursuant to section 8 of P.L.1977, c.396 (C.40A:5-15.1); or

- the authorization for investments as permitted pursuant to section 8 of P.L.1977, c.396(C.40A:5-15.1); or
- any combination of the designations or authorizations permitted pursuant to this subsection.

In our discussions with management, we noted that the City did not have a cash management plan in place during the fiscal year ended June 30, 2008. However, we did note that the City approved a cash management plan for the fiscal year ended June 30, 2009.

We suggest that the City continue to update and annually approve a cash management plan in accordance with *N.J.S.A. 40A:5-14*.

Strengths

During our procedures, we identified what we believe to be certain strengths in the City's internal controls over the banking and investment process. These are discussed in the paragraph that follows.

The City's banking and investments are monitored by the City's Chief Financial Officer. During our review of the banking and investment process, we noted that the City approves all financial institutions on an annual basis by a City Council approved resolution in accordance with N.J.S.A. 40A:5-14. In addition, the City properly adopted a cash management plan in accordance with the provisions of statutes during Fiscal 2009 despite not having a formally adopted plan during our period of review.

Conclusion on the Effectiveness of Internal Control

Based upon the procedures performed and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and noncompliance with New Jersey State Statutes and other laws and regulations over the banking and investment policies as low.

General Fiscal Operations

Capital Ordinances

Overview and Background

The capital ordinance process commences as the City begins to develop its budget during May of each fiscal year. When the City decides 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 identifies that a new project is necessary 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 determine our risk assessment.

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 and then approved by the Chief Financial Officer (“CFO”) and is filed in the Office of the 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 Hudson 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, at the time of final consideration. 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 first publication of the ordinance or of a summary thereof after final adoption.

After the twenty day period has expired, the City's CFO has the authority to establish an appropriation and an improvement authorization in the City's accounting records. Copies of the ordinances are sent to the City Comptroller and Budget Director. The Comptroller posts the entries to record the ordinance in the general ledger, while the Budget Department enters the ordinance in the budgetary system so spending can begin. Prior to issuance of any payments against a capital ordinance, the payments must be approved by a designated individual ("Capital Coordinator") in the Division of Accounts and Control. The Capital Coordinator receives all payment requests as well as all supporting documentation and compares the information to the adopted ordinance for compliance with the initial purpose of the ordinance.

The Capital Coordinator is responsible for performing a periodic review of improvement authorization balances. The open projects are reviewed to determine completion, and if the project is completed and funds remain available, the Coordinator informs the CFO that unexpended funds are available and should be cancelled for use in the subsequent year's budget for tax relief or other allowable purpose. Additionally, the Capital Coordinator reviews the active projects to determine that the projects have been funded (either temporarily or permanently funded) prior to the incurrence of significant expenditures. If it has been determined that certain projects need to be funded, the Capital Coordinator informs the CFO of the need.

In order for the City to issue or refund any outstanding debt, the City is required by statute to introduce (at a Council meeting) any bond ordinances, hold a subsequent public hearing, and then formally adopt the bond ordinance at a Council meeting. 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 CFO decides that it would be more beneficial to sell bond anticipation notes, they can immediately begin seeking bids because the approval from the City Council was obtained with the pre-approval of the ordinance. The CFO considers several factors when considering whether to sell bonds or notes. Those factors mainly include current interest rates and budget constraints.

Controls Identified

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

- All ordinances must be approved by the City Council.
- Capital projects amounts are authorized in the Capital Budget.
- Annual and Supplemental Debt Statements are reviewed and approved by the CFO.
- Ordinances are advertised in a newspaper publication.

- Active authorizations are reviewed by the Capital Coordinator to ensure funding is sought prior to the incurrence of significant expenses.
- Completed authorizations are reviewed by the Capital Coordinator and unexpended funds are cancelled to be used as revenue in a subsequent fiscal year.
- Prior to issuance of payments, all capital related expenditures are reviewed and approved by the Capital Coordinator.

Internal Control and Compliance Findings

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

Outstanding Improvement Authorization Balances

During our review of the improvement authorization schedule in the 2008 annual audit report, we identified various improvement authorizations with minimal balances and the projects appear to be complete. Additionally, during our review of the improvement authorization schedules in the 2007 and 2008 annual audit reports, we identified various improvement authorizations with outstanding balances, for which there has been little or no activity for at least one year. Several of these projects have been outstanding, with no activity, for multiple years. The City should review these improvement authorizations to determine if they have been completed, and if deemed appropriate for the funded improvement authorizations, cancel the remaining balances for use in future year's budgets.

Improvement Authorizations with Cash Deficits

During our review of the 2008 annual audit report, we identified several unfunded improvement authorizations balances that were over 5 years old, for which the projects have been partially or fully completed and paid for. These projects have incurred costs without being funded, which has resulted in the respective improvement authorizations having individual cash deficits and have had to borrow from other improvement authorizations in order to incur expenditures. The City should consider following up on any unfunded deferred charges in excess of five years old, to determine whether the projects are completed and provide funding for any of those completed projects.

Payments Charged to Capital Ordinances

The City has informally assigned an individual in the Division of Accounts and Control with the responsibility of reviewing and approving all payments that are charged to capital ordinances. This individual is responsible for reviewing the ordinances to ensure that the payments are being made in accordance with the original purpose established in the ordinance. During our review of the payments made from capital ordinances, we noted that there appears to be a control in place, but it is not formally documented by a signature or initials of the individual's review and approval. We suggest that the review and approval of purchases and payments made from capital ordinances require a

signature or some other form of written approval and that approval be attached to the purchase order and payment vouchers prior to payments being issued.

In addition, during our review of payments charged to capital ordinances, we noted that certain payments were made for items that we believe should have been charged to the current fund budget, rather than to an approved improvement authorization. We suggest that controls be enhanced to ensure that only goods or services that relate to the intent of the approved bond ordinances are charged to the improvement authorizations.

Strengths

Based upon the procedures we performed, we have identified what we believe to be certain strengths in the City's internal controls over the capital ordinance process. These strengths are discussed in the paragraph that follows.

The City's capital ordinance process is initiated on an annual basis with the annual budget process when the City determines the capital projects that need to be completed. The capital budget is approved on an annual basis. The City appropriates funds for capital projects through the adoption of a bond ordinance. During our review of the capital ordinance process, we noted that all adopted ordinances during the year were properly included in the City's adopted budget, properly advertised, introduced, and adopted in accordance with appropriate statutory requirements. The City had also refinanced certain outstanding debt instruments in 2005 to ensure that the City will not be affected by larger future required debt payments and to identify cost savings on a go-forward basis.

Conclusion on the Effectiveness of Internal Control

Based upon the procedures performed and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and noncompliance with New Jersey State Statutes and other laws and regulations over the capital ordinance process as medium.

General Fiscal Operations

Tax Abatements and Exemptions

Overview and Background

The City of Jersey City follows New Jersey Statutes (NJSA 40A:20 and 40A:21) in offering tax exemptions or abatement of taxes to developers within certain designated areas of the City. In 2002, the existing Mayor at the time approved Executive Order #02-003, which created the policies and procedures in place today that must be followed in order for a tax exemption to be permitted and approved. The City has numerous tax abatements with various developers throughout the City. The tax exemption represents a substitution of an annual payment for the amount of taxes which would otherwise be due for improvements made to property under conventional property law under the provisions of the statutes noted above. The tax exemption law provides the City with the opportunity to generate 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. In addition, they are approved to maintain or provide gainful employment within the City, assist in the economic development of the City, maintain or increase the tax base of the City and maintain or diversify and expand commerce within the City.

Currently, the City has approximately 138 active tax exemption agreements that resulted in revenues in excess of \$77 million (17% of the budget) in the 2008 fiscal year. Due to the number of tax exemptions in place within the City and the continued revenue growth within the tax exemption area, a separate department was established several years ago for the purpose of administering the tax exemption process. The Abatement Manager is responsible for the Department. There are currently five employees operating within the Tax Exemption Department and is supported by the Tax Collector's Office.

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

- Housing Department identification and maintenance of maps designating areas of the City that qualify for tax exemption
- Executive order establishing the process to be followed
- Approved resolution or ordinance approving the tax exemption
- Financial agreements executed by all parties
- Calculating of annual service charge and administrative fee performed by Director of the Department to ensure proper billings
- Payment and tracking in tax system
- Monitoring the terms of the abatement and financial agreements

- Determining when the property exemption/abatement has expired and is assessed and included in the traditional tax structure

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 determine our risk assessment.

The following presents a summary of observations related to the tax abatement and exemption process:

Abatements are permitted in areas that are deemed redevelopment areas or UEZ designated by the Housing Department of the City under statute. The 20 year plus (long-term) abatement process and procedures utilized by the City are based upon an executive order approved by the City on March 28, 2002. Prior to 2002, there were longer abatements approved under existing statutes and laws at the time including the Limited Dividend Law.

In order for long-term tax agreements for exemption to be approved, a developer or individual must have a plan to build property in either the designated UEZ area or redevelopment areas and they are required to prepare an application that must be submitted to the Director of the Department of Housing located on Montgomery Street. Once the abatement application is received and reviewed, it is submitted to the legal office, the Mayor and members of the Tax Abatement Committee for review. Once the legal review is complete, the application and all required documentation are submitted to the Tax Abatement Committee for further review.

The Tax Abatement Committee is comprised of seven members as follows:

- Mayor
- Tax assessor
- Director of the Department of Finance
- Director of the Department of Housing and Economic Development
- An individual from corporate council
- Mayor appointment from the City council
- Mayor appointment of resident from City

The purpose of the committee is to informally provide information to the Mayor to enable him to formulate a recommendation to the municipal council as to whether or not an application should be approved or disapproved in accordance with the Executive Order and statutes/laws of the State of New Jersey.

A meeting is held by the Tax Abatement Committee and after deliberation; a decision is made to either approve the application or reject it. If approved, it is forwarded to the Council and presented at a caucus meeting (non voting) for review. At the caucus meeting, an individual from the developer's company that submitted the application is

normally present to discuss the application and the plans for the construction and reasons why they are applying for the tax abatement.

After the caucus meeting, the application is placed on the agenda for the next Council meeting and an ordinance is prepared and introduced on first reading. If the first reading is approved by the Council, it is then placed on the next meeting agenda for second reading and at that meeting the required public hearing is held. If the Council approves the ordinance after the public hearing and upon second reading, it is considered approved and 20 days after the formal approval is deemed an official ordinance of the City.

After the 20 day period, the developer can start the approved project. At that same point, a 2 year build out period is estimated along with the estimated cost of the project. During this 2 year period, no taxes or "Payment in Lieu of Taxes" ("PILOT") payments are required. Once the 2 year build out period is completed and a certificate of occupancy (CO) is approved by the City building department, it is forwarded to the Tax Assessor for review and then the Supervisor is notified that the process should commence after 30 days of the CO and the information is entered into the system within the Tax Office and the billing process commences.

The abatements are placed within the same system that the Tax Office uses for regular taxes and they are tracked in the same manner. The abatements are billed quarterly and the amounts are due on February 1, May 1, August 1 and November 1, similar to regular tax collections as noted in the Revenue and Cash Receipts section of this report. Interest is charged at 8% and 18% in accordance with statute and normally each June of the fiscal year, any delinquent tax abatements are placed on the tax sale and the lien is sold. Therefore, the tax abatements are normally received at 100% in a given fiscal year.

The properties are billed in accordance with their status in each year and in accordance with the terms stipulated in their respective tax abatement financial agreement. This information is sent to the Tax Collector to be entered into the tax software and other supplemental records. The Tax Collector prepares the tax abatement bill, including the administrative fee and other charges, to be billed to the abated properties in accordance with their respective tax abatement financial agreements.

Both the annual service fee and the administrative fee are billed in accordance with the stipulations in the respective executed financial agreement. The Tax Abatement Manager and 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 assessed and 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, written notification is sent to the Tax Collector so that the change can be processed in the Tax System.

Controls Identified

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

- The City has established a Tax Abatement Committee that is comprised of 7 members that reviews all applications for tax abatement/exemption.
- Resolution or ordinance is approved by the Council permitting the tax exemption prior to execution of financial agreement.
- Financial agreement is executed by all parties that include the establishment of rates and what the rates will be based upon, the term of the agreement and other pertinent requirements regarding the exemption.
- Tax exemptions are entered into the computer system, which tracks amounts due, billings, collections, and delinquencies and when the exemption expires.
- Tax Collector handles the billing and collections for the exemptions in the same manner as regular property tax payments and follows the same internal controls identified in a Revenue and Cash Receipts section of this report.
- Computer system will subsequently generate all tax bills based on the information contained in the tax system.
- The Abatement Manager and Tax Collector review 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 assessed and included in the Tax Duplicate as taxable property in the subsequent year. There is actually a field in the computer system that documents the year in which the exemption expires and notifies the Tax Collector when that date is reached.

Internal Control and Compliance Findings

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

Documentation of the Annual Calculation of Exemption amounts

As required by the Mayor's Executive Order and as required by law, the City is required to review annual certified audit reports or acceptable alternative documentation to document the financial performance of each project under a tax exemption agreement. This documentation is required to be reviewed and a determination made as to any required increase in the service charge payment and the payment of any excess profit, if any.

Although it appears this process is occurring, the calculation prepared used to support the amounts billed to the projects is not clearly documented in the files. We suggest the City Office of Tax Exemptions formally document the annual calculation that is required to be performed and maintain the calculation in the applicable project file for review.

Strengths

During our procedures relating to the tax exemption and abatement process, we identified what we believe to be certain strengths in the City's internal controls over the tax abatement and exemption process. These are discussed in the paragraph that follows.

The City relies on tax abatements for approximately 17% of the City's annual budgeted revenues and has in place an entire department to promote tax abatements for the City and manage the process. During our review of the tax abatement and exemption process, we noted that all tax abatement applications received are reviewed by the Department of Law, the Mayor, and the Tax Abatement Committee and approved by City Council prior to the execution of any financial agreement. The City has implemented an internal computerized tracking system to account for all of the City's tax abatements. This system is effective for tracking the terms of the executed financial agreements, billings, collections and expiration dates of the tax exemptions. Billings and collections are handled in the same manner as regular taxes levied to property owners and are handled through the overall tax system of the City.

Conclusion on the Effectiveness of Internal Control

Based upon the procedures performed and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and noncompliance with New Jersey State Statutes and other laws and regulations over the tax abatement and exemption process as medium.

General Fiscal Operations

Trust Funds

Overview and Background

As provided in State Statutes, in the budget of any local unit, dedicated revenues anticipated during any fiscal year from any dog tax, dog license fees, revenues collected pursuant to N.J.S.A. 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 annual budget by annexing to 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. We also performed certain procedures relating to the trust fund process and other procedures deemed necessary to develop our risk assessments.

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

When anticipating raising money for a particular purpose that will be managed through the establishment of a trust fund, the CFO of the City prepares a resolution and presents it to the City Council for permission to apply for a trust fund reserve RIDER dedication. Once the City Council has approved the resolution, the resolution is sent to the Division of Local Government Services for review and for approval of the RIDER dedication. Once the dedication by RIDER is approved by the Division, the City is authorized to spend the applicable cash receipts for the approved purpose. Trust fund cash accounts are reconciled to the bank statements on a monthly basis and are reviewed by the Comptroller.

Controls Identified

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

- Dedications by RIDER are approved by the Division.
- City Council approves resolutions for all applications for RIDER dedication.

- Trust fund cash balances are reconciled to respective bank statements on a monthly basis and they are reviewed by the Comptroller.

Internal Control and Compliance Findings

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

Dedicated Trust Fund Reserves

Pursuant to N.J.S.A 4A:4-39, dedicated revenues anticipated during the fiscal 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 inactive during 2008 and other various spending reserves that were not approved by the State by an official budget rider dedication.

We suggest the City review its trust fund reserves for validity and based upon the results, either cancel inactive reserves or adopt a resolution, and request the approval from the State, to obtain an official rider dedication for the applicable reserves that are considered spending reserves.

Conclusion on the Effectiveness of Internal Control

Based upon the procedures performed and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and noncompliance with New Jersey Statutes and other laws and regulations over the trust fund process as medium.

General Fiscal Operations

Grant Accounting

Overview and Background

Each City department head initiates all grant applications for their respective department or area of responsibility. If matching funds are required as a condition of receiving the grant, the CFO will determine if monies are available for this purpose before requesting the City Clerk to draft a resolution. Once a resolution is drafted to permit the responsible individual or department 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 obtaining the grant, they adopt the resolution to give the department head or the grant administrator permission to submit an application on behalf of the City. The department requesting the grant is required to complete the application and submit it to the grantor agency.

As part of our procedures, we developed a high level understanding of the grant accounting process. We interviewed certain individuals within the process and prepared a narrative documenting the process and key controls in place. We also performed other procedures we deemed appropriate in order to develop our risk assessment.

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

Upon receipt of an approved grant, the City's Chief Financial Officer is notified of the award. The timing of the grant period determines 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 CFO will include the grant in the annual budget as an item of revenue offset with an appropriation. If the annual budget has been introduced, but not yet adopted, the CFO requests the City Council to introduce a budget amendment, (N.J.S.A. 40A:4-9). If the grant is accepted after the annual budget has been adopted, the CFO will request that the City Council adopt a resolution requesting that the Division to 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 annual budget cycle. Once the grant has been appropriated, the CFO fully charges the revenue and expenditure accounts in the Current Fund and establishes a grant receivable and an appropriated reserve in the Grant Fund. If the City receives funds for a grant that they were unaware of and the funds have not been appropriated, the receipts are posted as an un-appropriated reserve. During the subsequent year's budget process, the City can anticipate these un-appropriated reserve funds in the budget to use for spending purposes.

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 head is responsible

for reviewing any grant expenditure prior to the purchase being made. Once this compliance is verified, the purchase is forwarded to the Division of Accounts and Control for approval and eventually payment. This is an important control which is designed to verify that the funds are being expended in accordance with the specific grant regulations and requirements.

Any requests for draw downs or reimbursements from a grantor agency are completed by the applicable department head that is designated as the department's grant administrator. Checks received from a grantor agency are required to be sent to the City's Division of Accounts and Control where they are recorded in the cash receipt records, deposited into the City's bank accounts, and posted to the appropriate general ledger accounts. If the City receives funds via a direct wire transfer, the respective department receives notification of the deposit. They forward these notifications of grant receipt via wire transfer to the Division of Accounts and Control so they can appropriately post the cash receipt to the general ledger.

The Division of Accounts and Control is responsible for performing periodic reviews of the grant receivable and reserve balances to determine validity of outstanding receivables or unexpended reserves. From time to time, the Department contacts individual departments and requests paperwork to either support the balances or a justification as to why the balance is no longer valid and should be cancelled. If a balance is determined to no longer be valid, the Division of Accounts and Control prepares and records a journal entry to the general ledger and the subsidiary records to appropriately reflect the cancellations or other adjustments to grant related balances.

Controls Identified

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

- City Council must adopt a resolution to authorize the City's permission to submit a grant application on behalf of the City.
- Each department head reviews grant expenditures prior to the expenditure being submitted to the Division of Accounts and Control, to verify that the funds are being expended in accordance with the specific grant regulations.
- Any requests for draw downs or reimbursements to a grantor agency must be completed by the department head that is designated as the grant administrator.
- Receivable and reserve balances are reviewed by the Division of Accounts and Control periodically to verify the validity of the remaining balances.

Internal Control and Compliance Findings

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

Centralized Office

We noted that while in the past, the City had a centralized grant accounting office and officer; currently there is no centralization of grant accounting. The City maintains a significant number of grants with a significant amount of funding coming from federal and state agencies. Currently, the grants are administered by various departments throughout the City without any formal oversight department to ensure that funds are expended timely, that grant receivables are collected timely and to ensure that internal controls are in place to prevent or detect non compliance with grant terms and compliance with state and federal regulations. Due to the amount of the funding that the City receives from federal and state agencies, in the form of grants and aid, we suggest the City consider re-establishing a grant accounting office or appointing a grant coordinator to ensure individual departments are administering the federal and state grant programs in compliance with their respective grant agreements. The risk of not having this oversight is that grant expenditures are not monitored for compliance and the state and federal government request a reimbursement of funding that the City may already have expended and would have to provide the funding from its annual budget.

State and Federal Grants Receivable and Reserves

We noted that included in the 2007 annual audit report was an audit finding and recommendation pertaining to the fact that there were various grant receivable and reserve balances reported in a deficit as well as multiple balances that were deemed older and needed to be investigated. During 2008, the City cancelled various receivable and reserves against one another in the amount of approximately \$10.4 million. However, this cancellation was made without being approved by a resolution of the council. Despite efforts to clean up these balances, during our review of the final 2008 audit report, there still appears to be multiple receivable and reserve balances that have existed for large periods of time after the grant period has expired that should be reviewed.

Additionally, it should be noted that the cancellations that were made for grant receivables and reserves appeared to have been made without proper offsets.

Multiple instances occurred where receivable balances were cancelled where the reserves had already been fully spent. The City has represented that this could have been caused by either misallocation of cash receipts in prior years or individual departments responsible for the grants not actively seeking the reimbursements that were due to the City. These amounts were cancelled against other various reserves that no longer had outstanding receivables rather than being cancelled and charged to budget operations.

Multiple instances also occurred where reserves were cancelled where there was no receivable recorded. The City has represented that in these instances the cash for these grants have been fully received, but the reserve was never properly charged for expenditures incurred. It appears that certain instances have occurred where the individual departments did not forward information to the Division of Accounts and Control to inform them of the costs incurred for these grants and that the expenditures

that had previously been charged to the City's budget need to be reimbursed from these grants. Additionally, certain instances occurred where these grant funds were never actually expended and needed to be cancelled. Because the City has cancelled several grant reserves where the grant funds had been received, the City has a potential liability on hand for these amounts that were cancelled without an offsetting receivable, should any of the respective awarding agencies request a return of unexpended funds. In addition, operations may have been charged for grant related expenditures through the current fund budget and then subsequently the grant reserve was written off.

Based upon the significant number of adjustments made over the past two years to cancel grant receivables and reserves and the amount of funding received, it is imperative that the City implement strong controls and processes to ensure funds are expended timely and if expended from the City's budget, that the budget be adjusted accordingly to reflect the funds being reimbursed from the grants. Grant receivable and reserve balances should be reviewed more timely to ensure funds are expended properly and reclassified if necessary.

JTPA Grant Oversight

During our review of the state and federal grants reported on the City of Jersey City's state and federal assistance schedule, we identified a certain pass through grant that is being handled by the Jersey City Training and Employment Offices ("JTPA"). This organization is a separate legal entity that is responsible for completing a grant application, requesting grant draw downs, completing the final reports and complying with the agreement with the federal awarding agency. However, all cash receipts from the grantor are being received directly by the City of Jersey City and deposited into a bank account under the name of the City of Jersey City. Upon requesting a transfer of funds from the City, the funds are wired out of the City's bank account directly into the JTPA's bank account. There is currently no monitoring system in place at the City to ensure that the funds are being used in accordance with the terms of the grant agreement. Since this grant is awarded in the name of the City of Jersey City, we suggest the City implement a formal monitoring process, which includes performing a periodic review of the JTPA expenditures, to ensure that the funds are being utilized in accordance with the approved grant agreement and to protect the City from any potential liability.

Strengths

As a result of our procedures performed relating to the grant accounting process, we identified what we believe to be certain strengths in the City's internal controls over the process. These are discussed in the paragraph that follows.

The City's grant accounting for each of the City's grant is handled by the respective department that applies for the grant. During our review of the grant accounting process, we noted that there is a control in place that requires grant applications be approved through a City Council resolution. Grant expenditures follow the same process as all other purchases with an additional level of review performed by the department head for

the department that applied for the grant award. All grant expenditures are reviewed for appropriateness in accordance with the grant award's allowable activities by the department head of the department responsible for applying and receiving the grant award. We also noted that the City received a finding in the June 30, 2007 audit which stated that the City had grant receivable and reserve balances reported in a deficit as well as multiple balances that were deemed older and required investigation. In response to this finding, we noted that the City implemented its corrective action plan and performed procedures to investigate grant receivable and reserve balances. This process resulted in the cancellation of over \$10 million in balances during Fiscal 2008. The City is now planning on performing this procedure on an annual basis to further address this corrective action and our findings noted above.

Conclusion on the Effectiveness of Internal Control

Based upon the procedures performed and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and noncompliance with New Jersey State Statutes and other laws and regulations over the grant accounting process as medium.

Information Technology Operations

Overview and Background

The Information Technology (IT) Department is responsible for implementing, maintaining, and supporting the IT needs related to the City's daily operations. The IT Department consists of 23 full-time employees whose responsibility is to facilitate the IT environment of the City. The IT Department supports the hardware, e-mail, telephone, software, network, and application infrastructure for the City and operates and maintains the City's networks, computer systems and phone systems.

The City utilizes two main software systems, H&L software and H.T.E. software, to operate the City.

The H&L software is the accounting and general ledger software system utilized by the City to account for its budgetary accounts and track the daily operations of the City. The software supports the City's general ledger, tax revenue, general revenue, purchasing, accounts payable and cash disbursement processes.

The H.T.E. software is the payroll software utilized by the City to account for all payroll related functions. The software is utilized to track all employee information, track employees' hours, maintain employees' salary and pay rate information, calculate employees' pay and deductions, calculate the appropriate tax withholdings and deductions, process the data supporting all payroll checks, and produce reports relating to the City's payroll activities.

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:

- IT Security Policy
- Program Change Management
- Logical Access
- Backup & Recovery
- Disaster Recovery Plan

We interviewed all appropriate individuals within the processes and prepared a narrative documenting the processes and key controls in place. We performed a walkthrough of the appropriate sub-processes within the IT function and other procedures deemed necessary in order to determine our risk assessments.

It is extremely important that all entities establish an IT Security Policy document. This is a document that sets the direction of information security for an organization. This policy is used to identify the expectations of the IT Department to the end-users. The

City's IT Department currently has a Policies and Procedures manual in place for use of the City's Information Technology that provides guidance on the following:

- Acquisition, receipt, transfer and removal of IT equipment
- Installation of non-standard hardware, permitted applications, and personnel computer audits
- Obtaining network access and changing the network password
- Acceptable usage of the City's e-mail and internet
- Commonly used IT related forms

City personnel do not have the ability to make program changes to either the H&L software application or the H.T.E. software application, as the City does not own the source code for either application. However, the City does have the ability to initiate a program change with the software vendors for each application. When the need for a program change is identified, the software vendor is contacted and the program change is initiated. Once the vendor has completed the necessary programs to address the request, the City must accept the program change and allow the vendor to install the new or revised program in the City's system.

Security on the network and applications of the City are controlled through accounts and passwords. In order to gain access or receive a modification to the level of access within the City's network and software applications, the IT Department must receive an approval communication from the employee's supervisor. The communication received by the IT Department must also include the recommended access rights for the employee. The IT Department must verify the reasonableness of the request and if deemed to be appropriate, the employee access is established within the applicable system. If an employee is terminated, the IT Department disables all of the employee's access rights immediately upon receipt of the termination communication.

System back-ups of the H&L and H.T.E. software applications are done automatically each night to a Storage Area Network (SAN). The following morning, the IT Department copies the SAN back-up to a tape and on a weekly basis the entire week of backup tapes are collected by a third party vendor and stored off-site. The backup tapes are maintained for one week before the tapes are re-used. On an annual basis, the IT Department performs a restoration of data from a back-up tape. The City does not currently have a formally documented disaster recovery plan.

Controls Identified

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

- The approval of the City's IT Department or a Department Director is required for a program change request to occur.
- The approval of the City's IT Department or a Department Director is required for the installation of a program change.

- New user and modifications to user access rights within the City’s software applications can only be provided upon receipt of an approved communication from an employee’s supervisor.
- IT Department disables all of the employee’s access rights immediately upon receipt of the termination communication.
- All software applications are password protected.
- All software applications and the related data bases are backed up on a daily basis.
- Copies of the daily backups are maintained at an off-site location.
- The IT Department performs an annual restoration of a daily backup.

Internal Control and Compliance Findings

The following represents the internal control and compliance findings noted during our procedures related to the information technology processes and operations.

User Account Creation and Modification Procedures

The process of creating and modifying user accounts is an event occurring frequently throughout the year and the controls over the process are critical in the protection of information contained within the network and applications. An important control in the process is the approval of an employee’s access to the network and the City’s applications. We noted that the City has a Use of Information Technology Policies and Procedures manual, which includes a policy regarding access to the City’s network and enterprise applications, (Financial, Tax, and Payroll). The policy requires a user’s access to be approved by the user’s Division and Department directors. The policies and procedures reference a Network Access Request Form for use in this process. In our discussions with management and testing of the controls over creating and modifying user accounts, we noted that the approval for the creation or modification of user accounts on the network, the HTE and H&L applications are provided through alternative methods (i.e. emails and phone calls). In addition, we noted instances where the supporting documentation for the approval was not maintained. This could result in a user being given inappropriate access in relation to the employee’s role.

We suggest that the control over the process for creating and modifying user accounts on the network, the HTE and the H&L applications that are identified in the Use of Information Technology Policies and Procedures be followed and that the City retain all approval documentation supporting the creation and modification to employees’ access. This is critical to ensure proper segregation of responsibilities and prevent the misuse of the system.

Password Configuration

The configuration of the City’s network and application passwords are critical in preventing unauthorized access. Insufficient password configurations could result in the

modification or deletion of data. In our discussions with management and testing of the City's password controls, we noted that the password controls over the HTE application, which supports the City's Payroll Department, has baseline password settings available but not implemented.

We suggest that management strengthen the password controls in place by increasing the minimum password length, requiring greater password complexity, and requiring the expiration and reset of all employees' passwords on a set time period determined by the City.

Removal of Terminated Employee Access

The process of disabling the access of terminated employees is a critical control in the protection of information within the City's network and applications. A terminated employee's access to the network and all applications should be disabled immediately upon termination. In our discussions with management, we noted that the Department of Administration – Division of Information Technology does not always receive timely communication of employee terminations from the Personnel Department or the employee's department. We also noted that the Department of Administration – Division of Information Technology does not perform a review of the network and application active user listing for terminated employees. However, we did note that this procedure is scheduled to be implemented during the 2009 fiscal year. The untimely disabling of a terminated employee's access allows for the possibility of unauthorized or inappropriate access to the user's account in the network and applications. In performing testing procedures to identify if the network and applications contain active user ID's for terminated employees, we noted that there were six terminated employees that remained active on the City's network listing as of June 30, 2008.

We suggest that management formally document and communicate a termination process surrounding the network and applications. An effective method to ensure that communications are received on a timelier basis is to include the communication of employee termination to the Department of Administration – Division of Information Technology on a termination checklist. In addition to ensuring communication of terminations are made timely, we suggest the management supplement this process with a periodic review, at least annually, of the network and application active users listings to identify any terminated employees with active user ID's.

Program Change Management Process

The program change management process is a critical process ensuring the ongoing continuity of the City's applications. Strong controls in the program change management process allow the City to gain assurance that all program changes to the City's applications have been properly authorized, performed, tested, approved, and implemented. In our discussions with management, we noted that the performance, testing and implementation of program changes for the City's applications are handled only by outside vendors.

In addition, we also noted the following:

- There is no formal program change management policy surrounding applications.
- Program changes related to the H&L application are not all handled by the Department of Administration – Division of Information Technology.
- The vendor supporting the H&L Application does not provide the Department of Administration – Division of Information Technology a listing of the outstanding requests, the status of the requests, or the expected completion date of the requests.

The matters noted above could result in the following:

- Implementation of an unauthorized program change.
- Corruption of an application resulting in data loss.
- Requested program changes not being handled on a timely basis.

We suggest that the District establish a formal program change management policy that requires the following:

- Documentation of the authorization, performance, testing, approval, and implementation of a program change.
- Approval of appropriate personnel within the Department of Administration – Division of Information Technology.
- Monitoring of all outstanding program change requests.

Disaster Recovery Plan

A disaster recovery plan is designed to provide guidance to the Department of Administration – Division of Information Technology for an efficient and effective recovery of the City's critical systems and applications in the event of an unplanned interruption or catastrophic event. The disaster recovery plan is a critical control for ensuring the ongoing continuity of the organization. In our discussions with management, we noted that the City does not have a formal disaster recovery plan in place. The lack of a disaster recovery plan could result in an untimely delay in reestablishing the City's systems and applications. However, we noted that management has contracted with an outside vendor to formally document a disaster recovery plan for the City.

We suggest that management establish a formal disaster recovery plan which includes guidance on process for communication of emergency, notification of 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.

HTE Super User Access

The City's HTE application allows for access rights to be granted on both a group and user level. A majority of the users are granted access through the group authorization. The level of access rights for a group level is established by management prior to being granted to an employee and the level of access rights a group authorization permits is consistent amongst all employees within the group level. Management determines the appropriate group level or levels an employee is assigned dependent upon the employee's position and access requirements for their job responsibilities. In our discussions with management and reviewing the HTE active user listing with user profiles, we noted that the HTE application currently has eight user profiles with administrator access rights, which provides the user with the ability to perform any function within the application. This number of users with super user access rights increases the risk of an inappropriate employee or individual obtaining unauthorized or inappropriate access to the application. There are several employees with super user access that do not need this level of access to perform their job responsibilities.

We suggest that management review the access rights for the users with administrator profiles immediately and remove the individuals that do not require super user access to perform their job responsibilities. We further suggest that management perform a full review of user access rights to verify that all employee's have the appropriate level of access rights.

Backup Generator

One of the key functions of the Information Technology Department is to provide the continuous delivery of access to the network and applications that support the City's daily operations. A key control in providing the continuous delivery of access to the City's network and application is to ensure that the City has access to a continuous source of power. In discussions with management, we noted that the City does not currently have a backup generator that would provide a backup source of power in an instance of a power outage. However, we did note that the City is taking the necessary steps to procure a backup generator during the fiscal year ended June 30, 2009.

We suggest that management continue to take the necessary steps to obtain a backup generator which will ensure the continuously delivery of the City's network and applications.

Strengths

During our procedures relating to Information Technology of the City, we identified what we believe to be certain strengths in the City's internal controls over the information technologies operations. These observed strengths are discussed in the paragraph that follows.

The City's Information Technology Department oversees the hardware and software applications supporting over 1,200 network users with varying levels of access to the City's applications. During our review of the Information Technology operations, we noted that the City has an effective Policies and Procedures Manual for the Use of Information Technology in place providing guidance to the City's network users.

The City's data center provides the network and applications with the ability to operate on a continuing and timely basis. The access to the data center is appropriately restricted to only Information Technology Department personnel. All of the City's critical applications are backed up on a daily basis and stored at an off site location. In addition, the City performs a restoration of a back up on an annual basis to ensure that the City's critical operations can be recovered successfully on a timely basis.

Conclusion on the Effectiveness of Internal Control

Based upon the procedures performed and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and noncompliance with New Jersey State Statutes and other laws and regulations over the IT process as medium.

Risk Management

Overview and Background

The Risk Management Department duties include the administration of both workers' compensation and general liability claims, the purchase of the City's insurance coverages and the setting of insurance requirements for contractors doing business with the City.

The City established a self-insurance program in 1982 as permitted by New Jersey Statute Chapter 40:10-6. The Statute enables the governing body of any local unit to create a fund to provide insurance coverage for its exposure to a wide variety of property casualty risks, including property damage caused to any of the unit's property, motor vehicles, equipment or apparatus; liability resulting from the use or operation of such motor vehicles, equipment or apparatus; liability for the unit's negligence, including that of its officers, employees and servants and workers' compensation obligations.

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 internal control and compliance procedures deemed necessary in order to determine our risk assessment over the risk management process.

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

General Liability

The City's general liability claims are self-insured for amounts up to \$250,000. The City has an excess liability policy in place with an insurance company to handle all claims in excess of the \$250,000 up to \$5,000,000 per occurrence and \$10,000,000 in aggregate. The City's general liability claims are handled either through the Risk Management Department or the City's Law Department. The Risk Manager has the authority to settle cases with contingent authority for amounts of \$7,500 or less. All claims in excess of \$7,500 are handled through the Law Department. When the Law Department receives a claim from an employee or individual through an attorney, the Law Department investigates the claim and either attempts to settle it or prepare the City for litigation. When a general liability claim is settled, a Release of Liability is signed by the claimant releasing the City from further liability related to the matter.

Workers' Compensation

The City's workers' compensation claims are self-insured for amounts up to \$500,000. The City has a policy in place with an insurance company to handle all claims in excess of the \$500,000 up to \$5,000,000 per occurrence and \$10,000,000 in aggregate. The

process initiates with communication by the employee to the City of Jersey City notifying the City that a workers' compensation related injury has occurred during the course of their employment with the City. The employee is required to complete and sign an employee's report of accident form. This report must be approved and signed by the respective department head. In addition, the department head is required to prepare the State of New Jersey Employers First Report of Accidental Injury or Occupational Illness report. Additionally, the employee's supervisor is required to prepare the Supervisor's Report of Employee Accident report. At this point, the individual sets up an appointment with the City Physician. Once the employee has visited the City Physician, the City Physician is required to complete and provide a copy of the Workers' Compensation First Assessment report to the City's Risk Management Department. Upon receipt of the Workers' Compensation First Assessment report, a clerk in the Risk Management Department calculates the employee's appropriate workers' compensation liability pay and provides the calculated amount to the Payroll Department for review and processing.

In addition to an employee filing claims, after retirement or termination, a former employee can seek the assistance of an attorney and have a legal petition filed claiming an occupational illness had occurred directly as a result of his/her employment. In this instance, the attorney must file a petition with the courts.

The City also has additional policies in place to insure the City for claims related to employee dishonesty, property, water property and inland marine, tax and water excess liability, boiler and machinery, emergency vehicle physical damage, watercraft, and recreation medical reimbursement.

Adequacy of Insurance Levels

On an annual basis, the Risk Manager evaluates the adequacy of all of the City's insurance policies as well as the self insurance reserves. This process includes reevaluating the assets insured by the City through the consideration of the following factors:

- New property, buildings, or structures
- Sold property, buildings, or structures
- Modifications to property, buildings, or structures (i.e. refurbished assets, additions to existing assets)
- Change in the use of property, buildings, or structures
- Reconstruction of older assets being done in a more cost efficient manner
- Historical value of older assets

The Risk Manager contacts the City's insurance brokers to determine if the City's insurance policies are insured at the appropriate levels based upon the factors reviewed above.

The Risk Manager determines the level of the general liability reserve based upon the values of the City's property, buildings and structures, which are adjusted for based upon the factors noted above in his review of the City's assets.

The Risk Manager determines the level of the workers' compensation reserve based upon a combination of actual potential payments required for the fiscal year and the City's historical reserves and annual payouts.

Processing of Payments

On a monthly basis, the Risk Management Department prepares a listing of all current employees or former employees who are required to receive payments for active claims (general liability and workers compensation). Additionally, the Department prepares a listing of all the widows that receive payments for their former spouse's claims. Also, any invoices that have been received for payments to vendors are reviewed and added to this listing. All the information is entered into the system and a detailed liability payable listing report is generated. This report is submitted to the Self Insurance Commission members for approval at their monthly meeting. Once approved, the report is forwarded to the Division of Accounts and Control. The Division of Accounts and Control processes the payments and follows certain required procedures to pay the bills (see internal control and compliance section for purchasing / accounts payable / cash disbursements). Payments are processed through the City's normal purchase order process.

Controls Identified

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

- The Employees Report of Accident form must be completed by the employee and approved by the department head prior to the employee seeking any medical treatment.
- The Department head completes and approves the First Report of Accidental Injury or Occupational Illness Report as well as the Supervisors Report of Employee Accident.
- The City physician is required to complete a Workers Compensation First Assessment report within 72 hours of the employee's visit.
- Any claims that were filed by a retiree are filed through a valid legal petition signed by both the former employee and their attorney.
- All payments made from the Risk Management Department are approved by the Self Insurance Commission.
- Annual evaluation of all the City's insurance policies is performed to determine if the City has adequate coverage.
- All individuals entrusted or charged with the receipt, custody or expenditures of money are bonded by the City.

- The Division of Accounts and Control follows the same protocols and controls in place over the cash disbursement process when paying insurance related bills

Internal Control and Compliance Findings

The following represents the internal control and compliance findings noted during our procedures performed relating to the risk management process.

Surety Bond Coverage

Pursuant to N.J.S.A 40A:5-34 every officer or employee, by virtue of his office or position, or of any law, entrusted or charged with the receipt, custody or expenditure of money or funds of the local unit, shall, before entering upon the duties of his office or position be bonded to the local unit in its corporate name, conditioned for the true and faithful performances of his duties. During our review of City Surety Bond coverage's, we noted that the City did not obtain surety bond coverage for the Chief Financial Officer or Tax Collector during the 2008 fiscal year. Coverage was not obtained until after year end and was not effective until July 1, 2008. The City operated the 2008 fiscal year without surety bond coverage for the Chief Financial Officer and Tax Collector. We understand that the CFO is not required to have an individual surety bond unless they are a "Treasurer", however, due to the size of the City and the nature of its operations, we suggest an individual bond be considered for the CFO position.

We also suggest the City continue coverage renewal on an annual basis to ensure coverage does not again expire and perform the required statutory calculation to ensure coverage's are sufficient as required by statute.

Land and Building Values

We noted that the City has not performed an independent valuation or appraisal of all City owned land and buildings to determine the actual values in several years. Therefore the actual values of the land and buildings are not current resulting in the City being unable to determine the actual amounts of insurance coverage required to fully insure the value of their buildings and properties. We suggest the City consider having a valuation performed of all City buildings and properties in order to ensure that insurance coverage is obtained for an adequate amount.

Self Insurance-Cost benefit Analysis

We noted that the City has not performed a cost benefit analysis in the past several years to determine if the City should continue to be self insured for workers compensation and general liability or if it would be cost efficient to receive traditional insurance coverage.

The liability for all self insurance claims at June 30, 2008 was estimated to be in excess of \$32.9 million for workers compensation, \$481,000 for vehicle and auto liability and

\$4.5 million for general liability claims. Because of the significance of the incurred claims outstanding, we suggest the City at least consider performing a cost benefit analysis of its existing self insurance program as compared to traditional insurance coverage.

Strengths

During our procedures, we identified what we believe to be certain strengths in the City's internal controls over the risk management process. These identified strengths are discussed in the paragraph that follows.

The City's Division of Risk Management oversees all aspects of the City's administration and reserves for workers' compensation and liability claims. During our review of the risk management process, we noted that the Risk Management Department ensures that all required forms are received and maintained by claimant for all claims received prior to any claim being filed and included as a potential liability. The City also requires all claimants to report to a City approved physician initially and on a periodic basis to ensure that claimant's treatment is appropriate as well as completed in a timely manner in an effort to minimize the total liability to the City. All claim payments are approved by a Self Insurance Commission as well as City Council prior to payment.

Conclusion on the Effectiveness of Internal Control

Based upon the procedures performed and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and noncompliance with New Jersey Statutes and other laws and regulations over the risk management process as medium.

Inventory and Fixed Assets

Overview and Background

N.J.A.C. 5:30-5.6 codified and New Jersey Technical Accounting Directive No. 86-2 requires all local units to maintain a fixed assets accounting and reporting system that: establishes and maintains a physical inventory of fixed assets; places a cost-based value on all fixed assets whether constructed or acquired; has a subsidiary ledger, consisting of detailed property records for controlling additions, retirements and transfers of fixed assets; provides property management standards that ensure property records are maintained accurately; reflects a description and source of the property, acquisition date and cost; provides periodic physical inventories reconciled with property records; provides adequate safeguards against loss, damage or theft and provides an accurate Statement of General Fixed Assets in every annual audit report.

Inventory and Fixed Asset items at 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 City Comptroller oversees the purchasing and inventory of all fixed assets and the CFO is currently responsible for ensuring a fixed asset inventory and appraisal is performed in the 2009 fiscal year.

As part of our procedures, we developed a high-level understanding of the inventory and fixed assets process.

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.

Maintenance of Fixed Asset records and Ledgers

During our assessment, it was noted that the City does not maintain a comprehensive and detailed fixed asset subsidiary ledger. Additionally, the City does not tag, with individual identifying labels, fixed assets as they are purchased. Lastly, the City's fixed assets are not inventoried on a periodic basis. The maintenance of a comprehensive fixed asset subsidiary ledger will benefit the City by establishing accountability, improving internal controls over the City's fixed assets, aid in effective utilization of property and equipment and provide information that may be useful for insurance purposes.

In addition, as noted in the independent audit report for the year ended June 30, 2008, the City provided a listing of fixed asset additions during the year ended June 30, 2008 to the

auditors, however, the fixed asset additions listing provided, contained material mispostings, with expenditures for improvements and items not meeting the standards of fixed assets being booked as “machinery and equipment.” Retirements and disposals were not accounted for and no physical inventories were taken.

In order to comply with the Memorandum of Understanding, we suggest that the City identify all of its fixed assets through a physical inventory, place a numerical tag on each fixed asset, and periodically perform a physical inventory. This can be done by hiring an independent appraisal company and to save funds, the City should consider utilizing internal personnel to assist in the information gathering process. The subsidiary ledger documenting the City’s fixed assets should detail at a minimum the following:

- A description of the property or asset
- Tag number
- Source of funding for the asset, if purchased utilizing a grant
- Location of the property
- Acquisition date
- Cost of the property or asset
- Estimated useful life

Going forward, it is important that someone be assigned the oversight responsibility to ensure that the fixed asset records are properly maintained and include all inventoried fixed assets, annual additions and dispositions.

We have been informed that the City is currently preparing a Request for Proposal to obtain the necessary services to perform an independent fixed inventory and appraisal.

Conclusion on the Effectiveness of Internal Control

Based upon the procedures performed and the results obtained, we have assessed the level of potential risk relating to internal control deficiencies and noncompliance with New Jersey Statutes and other laws and regulations over the inventory and fixed assets process as high.

Other Matters

The following presents other matters related to other areas not specifically addressed elsewhere in this report:

Policies and Procedures Manual

Standard Operating Procedures Manual

Through various discussions and interviews in many of the departments, we noted that the City does not have overall formal comprehensive policies and procedures manual or a manual specific to each department or policy. Although certain departments of the City maintain a procedures manual, 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 the manual include all areas of accounting (payroll, revenue and cash receipts, purchasing, accounts payable, cash disbursements, etc.), human resources, fixed assets, information technology, risk management and clarify each position's responsibilities as well as document internal controls. Lack of policies and procedures or implementation could result in inconsistencies, significant deficiencies or material weaknesses in internal controls and unauthorized or inappropriate expenditures.

Internal Audit

Formalized Plan and Final Reports

Internal audit departments are important to entities to ensure adherence to internal controls and to provide support to management for areas of concern. During our review of the City's Internal Audit Department, we noted that a formal internal audit plan is not prepared on an annual basis to document the areas that will be reviewed and procedures to be performed and the form of report to be issued. It is important that annually, an entity reassess its control environment and identify areas to be addressed and evaluated. This can be done by developing an internal audit plan to document the scope of the engagement and the procedures to be performed. We also noted that there were no written reports issued in several years documenting the results of all projects performed.

We suggest the City require that a formal internal audit plan be prepared and approved on an annual basis and that subsequent to the completion of the assigned tasks, a formal written report be prepared and retained to document the procedures performed, conclusions reached and corrective actions to be taken.

Memorandum of Understanding

Hiring of Employees and Waiver Forms

We obtained a copy of the Memorandum of Understanding (MOU) between the City and the State of New Jersey that was required for the City to receive Special Municipal Aid. The copy obtained only contained signatures of City employees and a fully executed copy including State signatures was not provided. The date of the City signatures was May 2, 2008. One of the requirements of the MOU is that the City was not permitted to hire any employees subsequent to the date of the MOU without a waiver form the State of New Jersey. Per our review of the payroll master file for the period from May 2, 2008 through June 30, 2008, we identified over 400 employees hired. The employees were hired for several departments including recreation, public works, administration and several others. Per further investigation, we were informed that the majority of the individuals hired were seasonal employees and we subsequently verified this by reviewing applicable payroll records. We were informed that the City was given oral approval to hire the seasonal employees without a waiver requirement since the process had commenced prior to the signing of the MOU. Because the approval was provided verbally, there is no written documentation or approval from the State confirming this information.

We suggest that any requests submitted and approvals obtained from the State be documented in writing to ensure the City is complying with the terms of MOU and to prevent any questions in the future.

Maintenance of Documentation to Ensure Compliance

Per our review of the MOU, we noted that the City was required to submit certain documentation to the State in support of the MOU requirements. We obtained a letter from the City documenting what was provided to the State, but a copy of the records and information that was sent was not retained.

In order to ensure compliance with the MOU, we suggest the City create a file and retain a copy of all original documentation sent to the State to document its compliance with the MOU. A checklist documenting the requirements of the MOU should be prepared and reviewed on timely basis to ensure the City is complying with its terms of the agreement.



APPENDIX A

Overall City Response



CITY OF JERSEY CITY
Office of the Business Administrator

Jerramiah Healy, Mayor
Brian O'Reilly, Business Administrator

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Jersey City, New Jersey 07302
Telephone: (201) 547-5146
Fax: (201) 547-4833

March 31, 2009

Mr. Scott A. Clelland
Wiss & Company, LLP
485C Route 1 South, Suite 250
Iselin, NJ 08830

Re: City of Jersey City's Response in Special State Audit

Dear Mr. Clelland:

I would like to thank you and your team for the professionalism and patience exhibited by everyone throughout the audit process. I hope my staff and the City employees and agencies you encountered the last few months exhibited the same towards you and your staff. All of us realized this was not going to be an easy process, especially for an organization this size. We expected and certainly welcomed any comments that will improve the overall operations of the City of Jersey City.

My staff and I have reviewed your report and found some very valid points requiring our attention. We have taken the time to respond to some of your findings (see attached), but not all. In some of your comments, you had noted we were already taking corrective action since many of them were reported in our own annual audit. Therefore, we did not feel the need to repeat our plan. Overall, we are satisfied with your report and already have plans to implement several of your suggestions.

If you have any other questions, please feel free to contact Donna Mauer or Robert Kakoleski who have been our contact people during this process.

Respectfully,

Brian O'Reilly
Business Administrator

c: Donna Mauer, Chief Financial Officer
Robert Kakoleski, Asst. Business Administrator

Findings

Payroll, Personnel, Pension and Human Resources

AUDIT COMMENT

During our testing of employee payroll, personnel and pension files, we noted that the City does not have a formal checklist for each respective department to ensure all required documents are maintained in an employee's file or to track the required documents and ensure they are obtained. We suggest the City establish formal procedures and prepare checklists including all items that should be obtained and maintained in the employee files for each respective department. The checklists would alleviate any inconsistencies and ensure that all employee files contain all required and up-to-date information.

CITY RESPONSE

The City will create a formal checklist for each division requiring specific documents for employee files maintained by their offices. This will ensure all applicable documents are provided upon initial employment and maintained throughout the employee's career with the City. All files will be maintained in accordance with the State of New Jersey's Record Retention Schedule.

IMPLEMENTATION DATE: By July 1, 2009

Payroll Distribution Signature Sheets

AUDIT COMMENT

During our test of payroll transactions, we noted that this control is not functioning as intended. A significant number of signatures were missing from the forms tested and in many cases employees were signing for the checks and advices of other employees.

We suggest the City enforce the functioning of this control as it serves to verify the physical existence of employees working within the City and provides a control that each employee received their respective check or advice as denoted by the signature of the authorized department head or supervisor. We also suggest that the City consider performing periodic payroll distribution audits for all departments and locations on a rotating basis to ensure the control is functioning properly and to verify the existence of employees being paid.

CITY RESPONSE

The Business Administrator will issue a memorandum to all City Employees requiring them to sign for their own payroll check or direct deposit advice. Any employee not complying with this requirement will not be allowed to participate in the direct deposit program. Also, payroll checks will be distributed at a centralized location, as designated by the Business Administrator, for those employees who fail to sign the signature sheets at their current locations.

IMPLEMENTATION DATE: By May 1, 2009

Terminated Employees

AUDIT COMMENT

We noted formalized policies, procedures and checklists with regards to terminated employees do not exist. There exists the possibility that terminated employees could receive payroll disbursements, not return City property, or access to the City's computer system, buildings and offices inappropriately if the City does not take immediate action upon termination.

We suggest that the City implement formalized procedures relating to terminated employees to ensure that terminated employees do not receive payroll disbursements, retain City property, or gain unauthorized access to buildings and their access rights to the computer system are removed timely. A checklist should be prepared and made part of the termination process.

CITY RESPONSE

The City had an "Employee Exit" process during the 1990s. We will re-implement this process by creating a procedure and "exit form" which will be included in the out going employee's file. The form will ensure the employee has returned all City property assigned to him/her and it will notify various City offices of the employee's status change within the organization. These offices include but are not limited to Payroll, Health Benefits and Info Tech.

IMPLEMENTATION DATE: By July 1, 2009

Health Benefits

COBRA Benefits

Health Benefits Audit

Health Benefit Conversion Process and Applications

Health Benefit Record Retention for Retired Employees

CITY RESPONSE

We believe this office has the greatest potential cost savings based on the findings identified by this audit. The Business Administrator will be assigning the City's Internal Audit division to conduct an extensive overview of the operations within the Health Benefits Office. They will be charged with reviewing existing procedures and processes as well as recommend and implement improvements for more efficient operations and record keeping. During the course of this review, the Internal Audit team will reconcile coverage for active and retired employees with the provider bills.

START DATE: June 1, 2009 (2 month review)

Purchasing and Accounts Payable

AUDIT COMMENT

Issuance of Annual 1099's

We identified several employees who received a quarterly salary stipend through the purchasing system, instead of through the payroll system. These individuals received income in excess of \$600 for which they were not issued a required federal form 1099 for their income...

We suggest all individuals that are considered employees of the City be paid through the payroll system and taxed properly. For those individuals considered to be a vendor and paid through the purchase order system, the City should ensure all those individuals receiving in excess of \$600 receive a 1099 as required by the Internal Revenue Code.

CITY RESPONSE

There are several City employees who serve as staff members for the Jersey City Insurance Fund and receive a stipend for their services to the Fund. This is in addition to their salaries for their position with the City of Jersey City. We agree these employees should receive a 1099 form each year and will take the appropriate action for tax year 2009.

Capital Ordinances

AUDIT COMMENT

Outstanding Improvement Authorization Balances

During our review of the improvement authorization schedule in the 2007/08 annual audit report, we identified various improvement authorizations with minimal balances and the projects appear to be complete. Additionally, during our review of the improvement authorization schedules in the 2006/07 and 2007/08 annual audit reports, we identified various improvement authorizations with outstanding balances, for which there has been little or no activity for at least one year. Certain of these projects have been outstanding, with no activity, for multiple years. The City should review these improvement authorizations to determine if they have been completed, and if deemed appropriate for the funded improvement authorizations, cancel the remaining balances for use in future year's budgets.

CITY RESPONSE

These authorizations were reviewed by the City and any appropriate remaining balances were canceled.

AUDIT COMMENT

Improvement Authorizations with Cash Deficits

During our review of the 2007/08 annual audit report, we identified several unfunded improvement authorizations balances that were over 5 years old, for which the projects have been partially or fully completed and paid for. These projects have incurred costs without being funded, which has resulted in the respective improvement authorizations having individual cash deficits and have had to borrow from other improvement authorizations in order to incur expenditures. The City should consider following up on any unfunded deferred charges in excess of five years old, to determine whether the projects are completed and provide funding for any of those completed projects.

CITY RESPONSE

The City has reviewed the unfunded capital authorizations and is in the process of canceling any remaining balances by the end of FY 2009. Once that is completed, the City will look into funding the remaining projects.

Grant Accounting

AUDIT COMMENT

Centralized Office

We noted that while in the past, the City had a centralized grant accounting office and officer; currently there is no centralization of grant accounting. The City maintains a significant number of grants with a significant amount of funding coming from federal and state agencies. Currently, the grants are administered by various departments throughout the City without any formal oversight department to ensure that funds are expended timely, that grant receivables are collected timely and to ensure that internal controls are in place to prevent or detect non compliance with grant terms and compliance with state and federal regulations. Due to the amount of the funding that the City receives from federal and state agencies, in the form of grants and aid, we suggest the City consider re-establishing a grant accounting office or appointing a grant coordinator to ensure individual departments are administering the federal and state grant programs in compliance with their respective grant agreements. The risk of not having this oversight is that grant expenditures are not monitored for compliance and the state and federal government request a reimbursement of funding that the City may already have expended and would have to provide the funding from its annual budget.

CITY RESPONSE

The City is currently in the process of implementing a grants database which will track the compliance of all grants throughout the City. The database will be centralized in the Division of Management & Budget and will be updated after grants are accepted and assigned account numbers. This database will help the City track money expended and received from grants as well as keeping compliance reports up to date.

Accumulated Sick, Vacation, and Comp Time

AUDIT COMMENT

Police Department Records

We suggest the City implement procedures to require a more accurate accounting of police vacation and comp time and that a summary report be prepared annually and provided to the Payroll Department for review. This would ensure more accurate record keeping and that employees who retire receive the proper payment for their accumulated vacation and comp time.

Fire Department Records

We suggest the City implement procedures to require a more accurate accounting of fire fighter vacation and comp time and that a summary report be prepared annually and provided to the Payroll Department for review. This would ensure more accurate record keeping and that employees who retire receive the proper payment for their accumulated vacation and comp time.

CITY RESPONSE

The Police Department has committed to creating a database where the information is updated daily and accurately accounts for the total City-wide liability. Procedures will be created limiting those with the ability to edit individual officers balances. Electronic records will be printed at least annually for officer review and verification of time. Similar processes will be given to the Fire Department for implementation.

IMPLEMENTATION DATE: January 1, 2010