

NEW JERSEY DEPARTMENT OF
COMMUNITY AFFAIRS
DIVISION OF LOCAL GOVERNMENT
SERVICES

PERFORMANCE AUDIT OF THE
CITY OF NEWARK

PERFORMANCE AUDIT OF THE CITY OF NEWARK

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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 Newark ("the City") for the period from January 1, 2008 through December 31, 2008. Our audit was conducted in accordance with the standards applicable to performance audits contained in Generally Accepted Government Auditing Standards ("GAGAS"), issued by the Comptroller General of the United States of America.

Audit Objectives

The objectives of the 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 over specific areas to identify 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 identified 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 draft annual financial statement, the prior year audit report and corrective action plan, the annual budget, annual debt statement, the organization chart of the City); 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.

The second objective was achieved by considering 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, 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"). With the resulting information, various sampling techniques were used to further analyze the data, review supporting documentation, perform inquiries and observations, and identify potential errors. Additionally, we performed a payroll verification audit.

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

Audit Methodology

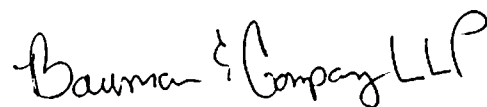
The audit methodology encompassed three phases: (1) Planning, (2) Information Extraction, Gathering, Analysis and Validation and (3) Reporting.

Audit Observations

Observations related to internal controls, statutory/regulatory compliance and cost saving opportunities noted during our audit have been presented in this report. The observations and related recommendations were presented to the City and the Division of Local Government Services.

City of Newark Response

The City's Response to the Performance Audit is attached at the end of this report beginning on page 69.

A handwritten signature in black ink that reads "Bowman & Company LLP". The signature is written in a cursive, flowing style.

Bowman & Company, LLP

Voorhees, New Jersey
August 27, 2009

Performance Audit of the
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ENGAGEMENT SUMMARY

Engagement Summary and Overview

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

As a condition of receiving Special Municipal Aid, the Division of Local Government Services 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
- General Fiscal Operations, including:
 - o Budget Process
 - o Revenue and Cash Receipts
 - o General Ledger Maintenance
 - o Banking and Investment Policies
 - o Capital Ordinances
 - o Tax Abatements and Exemptions
 - o Trust Funds
 - o 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 processes and controls through discussions with the City's various departments, which led to the development of a process and internal control worksheet. In the process and internal control worksheet, we identified the City's key controls that were designed 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 worksheet 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 re-evaluated our preliminary risk assessments, making modifications where necessary, and where warranted and expanded 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 two sections of the report titled Internal Control Review and Assessment and Statutory and Regulatory Testing. In these sections, each area is presented and includes (1) overview and background, (2) internal control findings, (3) internal control strengths (4) internal control weaknesses and (5) Statutory/Regulatory Testing.

From our initial meeting at the City (entrance conference) through our final closing meeting with City Management (exit conference), the employees of the City of Newark acted professionally, were cooperative, ensured that we received answers to questions and provide documentation, responded to other requests in a timely manner, and were an integral part of the 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.

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SCOPE OF SERVICES

SCOPE OF SERVICES

- A. The auditor must conduct an appropriate risk assessment to establish testing and sampling methods. An audit plan must be submitted to the Division five days prior to the commencement of the audit. The commencement of the audit may consist of an entrance conference with a member of the Division in attendance.
- B. In the course of the auditor's work, it is expected that the auditor will review, and if appropriate provide comments, on the following documents:
 - a. Annual Financial Statement
 - b. Prior Year Audit Report and related Corrective Action Plans
 - c. Organization Charts
 - d. Administrative code and related ordinances or resolutions
 - e. Internal procedural manuals or policies, including but not limited to:
Personnel, Purchasing and Risk Management
- C. The contractor must complete 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 shall be tested and reported on shall include:
 - a. purchasing, including but not limited to whether:
 - i. purchase orders were prepared only on the basis of written purchase requisitions or other appropriate form, and approved by authorized persons;
 - ii. controls exist preventing unauthorized purchases, unauthorized use of purchase order forms, and to prevent invoices from being paid in an amount greater than the original purchase order;
 - iii. controls exist to verify that goods and services were received as per contract;
 - iv. contracts (including purchase orders) were awarded in a manner consistent with the Local Public Contracts Law, and if aggregation policies were properly applied;
 - v. there is an appropriate record of open purchase orders; and the use of any credit or procurement cards are used consistent with state law and regulations;
 - vi. contracts awarded by the governing body, have appropriate resolutions, certification of availability of funds, and executed written contracts; and whether there were, in the opinion of the auditor, any, unreasonable, or inappropriate contracts, and identification of any such contracts;
 - vii. an encumbrance system is properly used and administered;
 - viii. invoices agree with original purchase order; purchase order agrees with and is consistent with any governing body approved contract, or if to the contrary, proper procedures for change orders or emergencies were followed;
 - ix. voucher packages contain a purchase order, an invoice, a receiving slip, a proof of delivery (bill of lading, packing slip, notice of delivery, etc.);
 - x. payments are made from original invoices (not statements or duplicates) and invoice dates are not prior to delivery date; and,
 - xi. if written procedural documentation regarding the procurement function (i.e., administrative code, purchasing manual) exists.
 - b. general fiscal operations, including but not limited to whether:
 - i. controls within the City's accounting functions: budgeting, cash receipts, accounts payable, encumbrance, general ledger maintenance, and if the controls 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;

SCOPE OF SERVICES (Cont'd)

- b. general fiscal operations, including but not limited to whether (cont'd):
 - v. capital ordinances, tax abatements, and trust funds are maintained in compliance with state law, regulations, and local ordinances; and,
 - vi. appropriate financial staff are in compliance with SAS 112.
 - c. payroll/human resources, including but not be limited to whether:
 - i. controls exist 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; and,
 - f. inventory controls: whether supplies, fixed assets, technology and electronic equipment with value greater than \$5,000 are adequately inventoried and controlled.
2. Payroll distribution audit: signed verification of employees receiving a paycheck, or in the absence of reasonable verification, verification of time sheet submissions.
 3. Statutory and regulatory compliance review of all (100 percent) professional services, competitive contracting and extraordinary unspecifiable service contracts from the previous fiscal year.
 4. Review of 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. Review of all public employee labor contracts to identify any benefits that in the opinion of the auditor are unreasonable, or inappropriate; and whether the organization prepares cost accounting for each labor contract.
 6. The organizational structure of the activities reviewed and its adequacy.
- D. Additional procedures shall consist of the following with a narrative explaining the finding:
1. an analysis of purchase orders where the payment amounts exceed the original purchase order amount by more than 20 percent;
 2. review of databases to determine if any vendors are paid at addresses listed as PO Box, commercial mail receiving agencies, etc.;
 3. analysis of payroll personnel databases to identify incomplete or missing hire date, birth date, status, address information and other key data elements;
 4. analysis of payroll data to identify employees who receive greater than the normal number of payroll checks within the two year period covering years 2007 and 2008; and,

SCOPE OF SERVICES (Cont'd)

- D. Additional procedures shall consist of the following with a narrative explaining the finding (cont'd):
 - 5. an analysis of payroll data to identify employees whose base salary increased by greater than \$7,500 from year 2007 to 2008.
- E. The firm must follow up on any finding, outliers or anomalies that are identified during the engagement and provide a written conclusion based upon the facts and professional judgment.
- F. The auditor shall identify and provide a report on any efficiencies or procedures that would lead to cost savings for the municipality or state that the auditor discovers beyond those that have been identified from the process in "A" through "D" above, including in the report any findings of non-compliance with applicable laws, regulations, and governance.
- G. A working draft of the report must be submitted by July 24, 2009. This will be to facilitate the Division's understanding of the results. It is expected that this will be a rough draft report and will be subject to editing.
- H. At least ten working days before the date of submission of the final draft of the audit to the Division, the auditor shall, upon receipt of written approval from the Division, conduct an exit interview and provide a draft of the final report to the municipality for review. The municipality shall be encouraged to respond to the report in writing. Any written response from the municipality shall be included in the final report submitted to the Division.
- I. The contractor must provide a separate bound report for the City. Final Reports shall be submitted by August 15, 2009. The reports shall include the following:
 - 1. a cover letter that provides a narrative of the work performed and any assumptions used in performing the work;
 - 2. a table of contents;
 - 3. an engagement summary report (not to exceed two (2) pages);
 - 4. a section describing the findings of statutory and regulatory compliance, which shall include:
 - a. a brief summary within each category,
 - b. specific examples and results,
 - c. a letter from the municipality responding to the contractor's findings;
 - 5. a section describing the findings on internal controls, which shall include:
 - a. overall summary of internal controls with a listing of each category identifying the level of risk (high, medium, low),
 - b. a brief summary within each category; and,
 - c. specific examples and results;
 - 6. a letter from the municipality responding to the contractor's findings.
- J. The contractor must conduct all reviews in accordance with the GAO "Yellow Book", (AICPA) Statements on Standards for Accounting and Review Services or any other industry standards that may apply, in addition to controlling New Jersey statutes, rules, and guidance issued by Division of Local Government Services.
- K. The contractor must provide the Division three copies of each report and one CD-ROM with the report in PDF or MS Word format.
- L. The contractor will make a presentation of the report to the Division and the contractor may also be required to present to the municipality.

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COST SAVINGS OPPORTUNITIES AND EFFICIENCIES

Cost Savings Opportunities and Efficiencies

1. Developers escrow fees are not consistently charged. Some of the costs to review projects initiated by developers are borne by the City tax payers.
2. Consideration should be given to simplify the contract approval process. Currently, purchasing certifies certain contracts and sends them to the vendor for signature. Upon receipt of the signed contract, it is sent to the affirmative action office, then the legal department and then the Business Administrator's office for signatures.
3. Grant receipts are posted to the grants receivable or grants unappropriated balance sheet accounts. The actual detailed grant account balances are maintained on a subsidiary excel spreadsheet. Consideration should be given to tracking the detailed grant balances through the financial accounting system.
4. Numerous different insurance companies are being used for various types of health insurance coverage. A review should be made to determine if combining coverages under one or a few companies would be more cost effective.
5. Consideration should be given to use approved on-line vendors to sell assets instead of normal public auctions.
6. The system for billing and tracking of receivables for the water and sewer utilities is not being processed through one system. This seems to create inefficiencies in the receipts processing cycle.
7. The City is self insured for general liability. The claims paid for the year ended December 31, 2008 were in excess of \$9,000,000.00. The City should investigate traditional insurance coverage to determine if it would be more economical.
8. All City union contracts contain a clause that requires that any change in health benefit coverage be of "better or equal to the existing coverage". The City should consider negotiating this clause out of future contracts in order to give the City more flexibility and opportunity to reduce costs.
9. There are forty-eight City employees who are provided vehicles. These employees are assessed imputed income for their personal use of the vehicle. The City should perform a cost study to determine the need for these vehicles.
10. Two contracts for \$400,000.00 each were awarded for accounting services. If these services are other than non-recurring, the City should determine if in-house accounting personnel would be more cost effective.
11. The City has two helicopters and one helicopter pilot. Consider the necessity of this and the possible that the County may already provide helicopter services to the City In cases of emergency.
12. Both sewer and water are billed monthly. Quarterly billings would save a significant amount of administrative costs. An analysis should be made of the costs savings compared to the loss of interest earnings as well as the cash requirement needed to pay expenses.
13. The processing of payroll appears to be too cumbersome. On a weekly basis, the payroll department receives the information from the various departments and processes the payroll and the corresponding checks. The various departments review the checks against the payroll registers which are emailed to them by the payroll department. If errors are found, the checks are voided and new checks are issued. Consideration should be given to have the payroll reviewed prior to the processing of the checks in order to reduce the time required to reprocess the voided checks.
14. The City currently does not charge public defender fees. Consideration should be given to establishing this fee in order to off-set the public defender costs.

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STATUTORY AND REGULATORY TESTING

Statutory and Regulatory Testing

Receipt Findings:

1. In our test of receipts for child and family well being, there were two instances where the detail breakdown as to the type of services paid for did not agree, however the total received was correct.
2. Three items tested from special taxes did not have proper support or the coupon attached. Additionally, one did not have proper support and the "FD-3 Form" could not be located.
3. Two items tested from the municipal court manual receipts for bail were not able to be verified since the supporting documentation was not available.
4. All fourteen of the municipal court bail receipts tested did not agree as to the allocation of cash and checks on the respective deposit slips.

Tax Abatement Findings:

1. The legal department settles tax abatements without discussing the abatement with the tax collector's office. The tax collector's office only becomes aware after the settlement.
2. Long term abatements under chapter 24 should be charged a 2% administrative fee per the ordinance Section 10:24-7 part a, however, individual resolutions are overriding the ordinance and some abated properties are being charged a 1% or 2 and a half % administrative fee. Resolutions can't override municipal ordinances.
3. Property owners for certain long term abatements under chapter 24 are required to submit financial statements within 90 days of the end of their fiscal year per the ordinance Section 10:24-7 part b, however most financials are not filed timely.
4. Abatements calculated on property owner's revenues are not always current because financial statements are not always submitted by the property owner. The abatement office sends letters to noncompliant property owners to request the financials, however there is no disciplinary action taken on the noncompliant properties. The city should formally notify the property owner and if noncompliance still exists, the abatement should be terminated. Although the city will collect the funds at some point, the city is not getting the full amount of cash receipts when actually due since financial statements are due within 90 days of the end of the entity's fiscal year.
5. The escalator clause (phase in) on certain tax abatements requires that the greater of the abatement bill or the adjusted escalator amount should be the minimum tax bill. These escalator amounts are not reviewed by tax abatement personnel or tracked by the system.
6. Two tax abatement properties were not "flagged" in the system and therefore the abatement bills were never increased over the base amount and 91 properties in the five year abatement plan were also not "flagged" in the system and therefore are not being calculated correctly.
7. One tax abatement property was over-billed by an estimated \$39,482.41 due to an error in the computer program.

Statutory and Regulatory Testing (Cont'd)

Disbursement Findings:

1. The same vendor is listed several times in the computer system in different ways and there are hundreds of multiple vendors in the system. These additional vendors create confusion and cause inefficiencies.
2. Social Security numbers are listed on support attached to some purchase orders filed in the accounts payable office. The Open Public Records Act restricts access to this information.
3. The annual percentage rate on the Gulf vendor card is 22.99 percent and late fees were also being charged on the card.
4. One vendor was paid through a commercial mail receiving department and 599 vendors were paid at addresses listed as P.O. Boxes however, these appear to be legitimate vendors.
5. Our review of disbursements revealed the following:
 - a. Four voucher packets were unable to be located.
 - b. Fifty-nine purchases were made prior to the date of the purchase order.
 - c. Four disbursements did not have a voucher attached to the voucher packet.
 - d. Four vendors tested who were paid in excess of \$600.00 were not issued a Federal Form 1099.
6. One vendor was paid in excess of \$14,000.00 for fresh flowers most of which was for "flowers in sympathy". This is not a proper use of public funds.
7. One disbursement was for plane fare to the Bahamas for a boxing tournament. We question the necessity of this expenditure.
8. A payment was made for \$1,431.75 for room accommodations in South Carolina for a "Double Dutch" competition.

Review of Encumbrances and Open Purchase Order Findings:

1. Most of the encumbrance and encumbrance contract reports were not accurate and did not tie back to the general ledger.
2. Our review of encumbrances revealed the following:
 - a. The grant encumbrance report had a significant number of old open purchase orders of which 537 were over 10 years old.
 - b. The trust fund had encumbrances dating back to 1984 of which 334 encumbrances are over ten years old.
3. The grant contract report had three negative purchase order amounts.

Ethics Disclosure Form Findings:

1. Fifteen employees and/or officials did not file the Annual Ethics Disclosure Form for 2007. Additionally, six of the same individuals Disclosure Forms were not filed for 2008.
2. Twenty-three employees and/or officials did not file the Annual Ethics Disclosure Form for 2008. Additionally, six of the same individuals Disclosure Forms were not filed for 2007.

Ethics Disclosure Form Findings (Cont'd):

3. One employee's and/or official's Annual Ethics Disclosure Form for 2008 and one 2007 Form was not signed.
4. It appears that the City made payments to five entities that were listed on the Annual Ethics Disclosure Forms as sources of income.

Professional Service Contract Findings:

1. It appears that animal control services were awarded as a professional services contract. We feel that this service does not meet the required criteria of a professional service.
2. A contract for educational transportation was awarded as a professional service. This does not appear to meet the criteria of a professional service.
3. Our review of professional services contracts revealed the following:
 - a. There were seven individual vendors who were paid in excess of the original awarded contract and/or change order.
 - b. Three professional services contracts were awarded but were not advertised in the official newspaper.
 - c. Twelve professional services contracts could not be located.
 - d. Three professional services contracts did not have the required Certificate as to Availability of Funds.
 - e. Five professional services contracts were accompanied by the required Certificate as to Availability of Funds however, the certification was not for the entire amount of the contract.
4. Payments were made against thirty-two open ended contracts where the required Certificate of Available of Funds was not completed each time a payment was made.
5. Most, if not all, of the Business Entity Disclosure Certifications were not properly completed as to the listing of the various political committees, election funds, etc.
6. The required pay-to-play disclosure documents were not available for one engineering contract.

Extraordinary Unspecifiable Service Contract Findings:

1. Twelve EUS Contracts did not have the required Certificate as to Availability of Funds and numerous other Certificates as to Availability of Funds were less than the contracted amount.
2. Eight Business Entity Disclosure Forms were not properly completed as to the listing of the various political committees, election funds, etc.
3. A test of vendors paid in excess of \$17,500.00 via a non-fair and open process revealed that two did not file a business entity disclosure form, one did not file a 271 Disclosure Form and one vendor did not file either.
4. The official notification in the newspaper for ten EUS contracts could not be located.

Extraordinary Unspecifiable Service Contract Findings (Cont'd):

5. The contract for consulting services for advertising which was awarded in December of 2006 for \$2,250,000.00 was properly awarded in the minutes and advertised, however the advertisement for the contract extension in March, 2008 for an additional \$750,000.00 could not be located. We are also questioning the propriety of this contract.

Bid, Change Order, and Other Contract Findings:

1. Certificates of availability of funds are not always kept with contract awards. Some are maintained in the finance office as well. Consideration should be given to establish a central location.
2. The procedure utilized by the City where by new purchase orders are created and the originals are cancelled, does not allow the proper tracking of change orders in excess of 20% of the original contract.
3. There was no documented evidence that a capital budget was ever adopted. The City's copy of the budget as well as the Division of Local Government Service's copy did not contain that section of the budget. Therefore, confirming that adopted capital ordinances were approved in the capital budget could not be performed.
4. The City has adopted an Executive Order (EO) as promulgated by the mayor, along with the City's version of the Chapter 271 Disclosure Form and the Business Entity Disclosure Form. The EO is more restrictive than the pay-to-play law of the State of New Jersey. The comments that we are making regarding non-adherence to the Pay-to-Play Law pertain to the state statute and not to the Executive Order, however we do make the following observations regarding the Executive Order:
 - (1) Whereas local governments are permitted to establish pay-to-play regulations, the City's pay-to-play rules were not approved by ordinance and filed with the State of New Jersey.
 - (2) The Definition of "no bid contracts" appears to encompass all contracts no matter the amount and no matter if a "fair and open" process was utilized.
 - (3) Our testing revealed numerous violations of the Executive Order.
5. We reviewed ten State Contract Awards and it was determined that none had Certificates of Availability of Funds and one was not identified by State Contract Number on the respective voucher.
6. We identified thirteen goods or services that could have been bid if the various purchases would have been aggregated. Additionally, upon a discussion with the purchasing department, a review of like purchases is not performed.
7. Nine of the bids tested did not have the legal advertisement in the bid packets.
8. Twenty-three of the bids tested did not have a Certificate of Availability of Funds. Although the resolution of award stated that a certificate would be completed with each purchase order, they were not completed.
9. The bid packets for fifteen of the contracts tested did not have support that documented the successful bidder was the lowest price. The information for the bidders who were not successful was not available.
10. A contract was awarded for floor covering, in the amount of \$42,285.44, however it was not bid. The minute record reflects that the bid process for this service was tabled.

Bid, Change Order, and Other Contract Findings (Cont'd):

11. A contract was awarded to provide meals for the elderly at a cost of \$117,264.95. The contract was awarded in 2006 by an emergency resolution. The vendor was paid \$287,870.50 during 2008 under the same emergency resolution. The service should be awarded through a bidding process.
12. Two vendors were paid in excess of the bid threshold during 2008. Both did not have a current year contract however, the total amount paid was \$153,668.88.

Payroll Distribution Findings:

1. The ID machine has been broken for months and many of the Newark ID cards are very old and are not legible. A bar code scanning ID system would be a much better system.
2. Some of the positions on the personnel database are not current. Also, some of the retirees collecting pension were not able to be located on the personnel database which may be caused by the data base not being updated for name changes.
3. Five hundred and ten employees did not attend the payroll distribution audit. Two hundred and eighty-nine of these individuals are fire department employees.
4. The payroll distribution audit revealed the following items for those individuals who attended:
 - Eighty-five police officers had expired police identification cards.
 - Eight individuals had no form of identification.
 - Twenty-two individuals provided only a City I.D. and no second form of identification.
 - Sixty-four individuals had a variety of other issues ranging from expired drivers licenses to the current signature not matching the form of identification provided.

Payroll and Personnel Findings:

1. Three hundred and sixteen individuals' base pay earnings increased greater than \$7,500.00 in 2008 as compared to 2007. Two individuals' increases were approved subsequent to August, 2008, one of which was a change of position. Approximately two hundred and sixty-four were police and fire personnel.
2. The verification of employee's social security numbers to the data base at the Federal Social Security Administration revealed that fourteen social security numbers did not match to the corresponding name, of which one did not attend the payroll distribution.
3. Five employees who were tested from the 2008 earnings record were also employed during 2007, however their names did not appear on the 2007 check register.
4. Police Department overtime exceeded 16 million dollars which is greater than 15% of police contracted salaries. This included two individual employees who received a total of \$80,249.80.
5. The direct deposit form for thirteen individuals could not be located.
6. Four individuals tested from the police department received payment for overtime however we were not able to locate the respective timesheet and/or their name on the department summary list detailing overtime hours.

Statutory and Regulatory Testing (Cont'd)

Payroll and Personnel Findings (Cont'd):

7. Two fire department employees received compensation identified as "hazard duty pay" in the amount of \$3,253.00 however the amount per the contract is \$1,253.00.
8. The longevity pay of three employees tested was incorrectly calculated.
9. We were unable to verify the accuracy of six different amounts of compensation, totaling \$4,296.57, to four of the employees tested.
10. We were unable to verify the accuracy of five different amounts of compensation, such as holiday pay and clothing allowances, totaling \$20,135.34, paid to one non-union employee tested.
11. The City Council approves all union contracts and "Executive Orders" are utilized to approve actual salary ranges by position. Most salaries are not approved through the adoption of salary ordinances.

Review of Salary Contracts Findings:

1. Newark Deputy Chiefs Association -- Twenty-two days vacation after six years. After the first year of employment there are 41 days of vacation, personal and holiday pay. Sick days range from 5 days for the first year of service, to 120 days for twenty years of service. Longevity pay of between 12% after 25 years of service and 14% after 30 years.
2. Superior Officers Association -- There is a minimum of 49 days of vacation, personal and holiday pay. Sick days appear to be unlimited. Longevity pay, of between 12% after 25 years of service and 14% after 30 years.
3. Service Employees International Union Local 617 (Police Communication Clerks and Officers) -- After the first year of employment there are 41 days of vacation, sick and holiday. Longevity pay of between 10% after 25 years of service and 14% after 30 years.
4. Communications Workers of America, local 1037, AFL-CIO -- After the first year of employment there are 44 days of vacation, sick and holiday. Longevity pay of between 12% after 24 years of service and 14% after 29 years.
5. Newark Council No. 21, Newark Chapter, NJ Civil Service Association -- Longevity pay of between 10% after 25 years of service and 14% after 30 years.
6. Fraternal Order of Police Newark Lodge No. 12 -- After the first year of employment there are 31 days of vacation, personal and holiday. Sick days appear to be unlimited. Longevity pay is received at a rate of between 12% after 25 years of service and 14% after 30 years.
7. Inter-local Union of Operating Engineers Local 68-68a-68b, AFL-CIO -- Double pay for Sundays and Holidays. Longevity pay is received at a rate of between 10% after 25 years of service and 14% after 30 years. After the first year of employment there are 14 paid holidays.
8. Service Employees International Union, Local 617 -- After the first year of employment there are 41 days of vacation, sick and holiday. Longevity pay is received at a rate of between 10% after 25 years of service and 14% after 30 years.
9. AFSCME AFL-CIO, Local 2297 -- Longevity pay of between 10% after 25 years of service and 14% after 30 years.

Review of Salary Contracts Findings (Cont'd):

10. Service Employees International Union, Local 617 -- Longevity pay of between 10% after 25 years of service and 14% after 30 years.
11. Newark Fire Officers Union, Local 1860 -- Longevity pay of between 10% after 25 years of service and 14% after 30 years.
12. Building Trades Bargaining Committee -- Longevity pay of between 10% after 25 years of service and 14% after 30 years.
13. Jersey Nurses Economic Security Organization -- Longevity pay of between 10% after 25 years of service and 14% after 30 years.
14. American Federation of State, County, and Municipal Employees -- Longevity pay of between 10% after 25 years of service and 14% after 30 years.
15. City of Newark Firefighters Union -- After the first year of employment there are 14 paid holidays. Longevity pay of between 12% after 25 years of service and 14% after 30 years.
16. AFSCME AFL-CIO, Local 2299 -- Hours in excess of 40 on a Holiday will be paid at triple time. Longevity pay of between 10% after 25 years of service and 14% after 30 years.

Banking and Investment Findings:

1. It appears that although the 2007 audit report shows investments on the trial balances, the notes to the financial statements do not reflect any securities categorized as investments. Based on our review, the City does not appear to have investments.
2. The notes to the financial statements in the 2007 Audit Report indicate there is money in New Jersey Cash Management Fund and in repurchase agreements which is not the case.
3. Several bank accounts are not included on the Annual Financial Statement but are instead listed as deposits in transit.

Grant Accounting Findings:

1. Grants are expended upon award but prior to the approval of city council and appropriation in the annual budget. Expenditures are posted to temporary accounts, reflected on the balance sheet as an asset and at some subsequent time charged to the appropriate grants.
2. There is a lag in approval by council for grants since all grants flow through the legal department two different times. Also, there is a lack of continuity in the law department in the review of grants. One person may do the initial review but a different person may do the review of the final agreements.
3. Demolition liens redeemed (paid by property owners) from 1998 to 2007 from HUD funds were not tracked and not subsequently appropriated to the grant as program income until 2008.
4. There were sixteen grants tested where the documentation to determine grant compliance was not able to be located.

Statutory and Regulatory Testing (Cont'd)

Grant Accounting Findings (Cont'd):

5. The Child and Family Welfare Department has indicated that one grant project has been completed and the balance of the grant had been returned, however the 2007 Audit Report discloses expenditures and a balance.

Review of the 2007 Audit Report and Corrective Action Plan Findings:

1. The 2009 budget was introduced on 7/14/09.
2. The 2007 single audit was filed as of 6/23/09 but was due by 9/30/08.
3. The 2006 single audit corrective action plan was completed, however it was never filed.
4. The audit report was dated September 10, 2008 which is beyond the statutory deadline of June 30, 2008.
5. The sales contracts receivable balance was the same as the previous year in the amount of \$12,544,477.53.
6. There is a liability on the Current Fund balance sheet for "Unallocated Receipts/ Tax Overpayments" in the amount of \$8,112,485.33.
7. The protected checks balance is \$1.4 million which is similar to the previous year yet the activity during 2007 was approximately \$600,000.00.
8. The reserve for election workers payable of \$86,277.72 has been the same for at least two years.
9. A deferred charge has been on the General Capital balance sheet for at least two years for "Unfunded Costs of Bond Issue" in the amount of \$355,521.68.
10. A deferred charge has been on the Water Utility Capital balance sheet for at least two years for "Unfunded Costs of Bond Issue" in the amount of \$50,000.00.
11. Footnote #10 identifies a balance of capital leases program through the Essex County Improvement Authority of \$38,481,161.06 which is not on the balance sheet.
12. The revenue accounts receivable statement discloses a balance receivable from the municipal court of \$1,137,546.69 which is the same as the previous year.
13. A balance of \$601,398.74 is disclosed on the Federal and State Grant Fund balance sheet which appears to be monies disbursed for grants prior to the grant being approved in the budget as adopted or by Chapter 159.
14. The balance of Federal and State Grants Receivable is \$164,708,168.00. This includes balances from 1983 through 2000 which totals \$32,156,652.00.
15. The unappropriated grant balance is \$9,812,121.76 as compared to the beginning balance of \$8,858,034.50. This would seem to indicate that approved grants are not being budgeted on a timely basis.

Review of the 2007 Audit Report and Corrective Action Plan Findings (Cont'd):

16. Assessment fund balance exists at December 31, 2007 in the amount of \$883,913.86. Since there is no corresponding debt consideration should be given to utilize these funds as revenue in the current fund budget.
17. Accounts receivable, protested checks and overpayments receivable balances in the Trust Fund total \$1,024,105.02 at year end. These balances were the same as the prior year.
18. There are unfunded costs in the General Capital Fund that have been expended and have deficit cash balances that are over five years old.
19. General Capital Fund Improvement Authorization funded balances exist at December 31, 2007 in the amount of \$4,291,834.47 for projects that were authorized in the years 1998 and prior. The City should give consideration to cancelling these balances.
20. There are unfunded costs in the Water Capital Fund that have been expended and have deficit cash balances that are over five years old.
21. The fixed capital authorized and uncompleted balances included projects from the 1980's and 1990's.
22. There are no outstanding bonds of the "bearer bond" nature, however there is a bond and interest fund listed in the audit.
23. The bond and interest fund identified in the audit should no longer exist. The investment amount consists of the balance of a lease purchase agreement that has been paid. The cash amount is from old bond and interest accounts that are in the process of being closed. These funds are in jeopardy of being escheated to the State.
24. The 2007 Report of Audit was received by the City in September, 2008. As of June, 2009 there is a corrective action plan however, it is in draft form and has not been approved by the Mayor and City Council or filed with the DLGS. The corrective action plan is required to be filed within 60 days of the receipt of audit. Also, the 2006 corrective action plan was never filed.
25. It appears that the various union contracts and the Executive Order for non-union individuals provide benefits to retirees, other than pension benefits. These benefits and others of a similar nature are considered "Other Post Employment Benefits". Effective with the 2007 Audit, information regarding these benefits was required to be disclosed in accordance with GASB 45.

Review of the 2008 Draft Annual Financial Statement Findings:

1. The AFS draft is dated May 22, 2009 which is beyond the deadline of February 10, 2009.
2. Sheet 1d does not identify the dollar value of the expenditures of federal and state programs.
3. Sheet 3 and 3a disclose an emergency note or notes in the amount of \$2,000,200.00 which is to provide the cash for the deferred charge of the revision to the master plan. The original amount of the deferred charge is \$2,000,000.00 and \$400,000.00 was raised in the 2008 budget. The entire amount of the emergency note may not have been required to be issued since one-fifth was already appropriated in the 2008 Annual Budget.
4. Sheet 9a appears to have the bank account numbers identified.

Review of the 2008 Draft Annual Financial Statement Findings:

5. Sheet 41a reflects a deferred charge of \$1,886,846.78 for capitalized interest.
6. Sheet 55a reflects an overdraft in sewer utility capital cash of \$13,520,803.87. This appears to be a result of not collecting funds from the state of NJ for the wastewater loan.
7. The following balances remained unchanged from the 2007 Audit to the 2008 Draft Annual Financial Statement:
 - Sales Contracts Receivable \$12,544,477.53
 - Protested Checks 1,400,000.00
 - Reserve for Election Workers Payable 86,277.72
 - Unfunded Costs of Bond Issues – all funds 405,521.68
 - Assessment Fund Balance 883,913.86

Review of the Organizational Chart Findings:

1. There are only two full time employees and one outside consultant who was hired on a temporary basis to work in the payroll department. Three payroll department employees have passed away in the past couple years and they have not been replaced. The payroll department appears to be understaffed and as a result is using outside consultants. This process may be inefficient and not cost effective.
2. Grant accounting and compliance is decentralized and performed at the department level. Oversight of grants is not possible at this level.

Other Items Noted:

1. As of May 4, 2009 the 2008 minutes were not bound.
2. The February 2008 dog license report was not filed until 4/28/08.
3. Outside lien redemptions are collected by the City but the checks are made out directly to the lien holder. The city does not deposit the funds.
4. The review of the monthly management reports of the City Court revealed that there are 14,415 pending traffic tickets that are over 120 days, there are 579,976 traffic tickets assigned and not issued that are over 181 days, there are 4,935 cases that are eligible for failure to appear notices, and there are 14,703 pending complaints that are over 121 days old.
5. It appears that there are twenty-seven Trust Other Reserves that are identified in the 2008 Annual Financial Statement that do not have approval from the Division of Local Government services. Twelve of the reserves have no expenditures in 2008.
6. Two individuals who were tested were listed on the health benefit bill however, no longer were employed by the City and/or did not have the required years of services to receive benefits after retirement.
7. There were ten individuals receiving health benefits whose names were not listed on the personnel data base. This may be caused by the data base not being updated for name changes.

Performance Audit of the
City of Newark

INTERNAL CONTROL REVIEW AND ASSESSMENT

Description of Audit Risk

Inherent risk - is the susceptibility of a relevant assertion to a misstatement that could be material, either individually or when aggregated with other misstatements, assuming that there are no related controls. The risk of such misstatement is greater for some assertions and related account balances, classes of transactions, and disclosures than for others. For example, complex calculations are more likely to be misstated than simple calculations. Cash is more susceptible to theft than an inventory of coal. Accounts consisting of amounts derived from accounting estimates that are subject to significant measurement uncertainty pose greater risks than do accounts consisting of relatively routine, factual data. External circumstances giving rise to business risks and also influence inherent risk. In addition to those circumstances that are peculiar to a specific relevant assertion, factors in the entity and its environment that relate to several or all of the classes of transactions, account balances, or disclosures may influence the inherent risk related to a specific relevant assertion.

Control risk - is the risk that a misstatement that could occur in a relevant assertion and that could be material, either individually or when aggregated with other misstatements, will not be prevented or detected on a timely basis by the entity's internal control. That risk is a function of the effectiveness of the design and operation of internal control in achieving the entity's objectives relevant to preparation of the entity's financial statements. Some control risk will always exist because of the inherent limitations of internal control. Inherent risk and control risk are the entity's risks, that is, they exist independently of the audit of financial statements.

General Comments

Control Weaknesses & Recommendations:

1. Weakness -- Most internal control documents maintained by the City do not currently reflect the actual controls in place and some departments do not have their internal controls documented.

Recommendation -- All City departments that maintain, process, or account for financial information or physical resources should have up to date internal control documentation.

2. Weakness – Controls and processes are not in place to enable the timely filing of the Annual Financial Statement by City Officials.

Recommendation – That controls and processes be established to enable the timely filing of the Annual Financial Statement by City Officials.

Cash and Investments

Audit Area Overview:

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 an understanding of the cash and investment process. We interviewed all appropriate individuals within the process.

Cash and Investments (Cont'd)

Audit Area Overview (Cont'd):

The following is a summary of observations related to the cash and investment policies and process:

The Assistant Treasurer researches various investment options, however, the Director of Finance 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. The City may only invest public funds in statutorily permitted investments.

Each month, the Assistant Treasurer is required to maintain a list containing the name of the institution in which the public funds are deposited, the amount of securities purchased or sold, the class or type of securities purchased, the book value of such permitted investments, the earned income on such permitted investments, the fees incurred to undertake such permitted investments, the market value of such permitted investments. The report shall also contain a listing of any certificate of deposits including organization holding funds, interest rate, amount, period and all other information which may be deemed reasonable from time to time by the governing body of the City.

The Assistant Treasurer is also responsible for preparing the bank reconciliations for all the bank accounts in the City's name except for the Municipal Court accounts.

Risk Assessment:

Inherent Risk - Moderate
Control Risk - Moderate

Control Strengths:

None.

Control Weaknesses & Recommendations:

1. Weakness -- Bank reconciliations are not reviewed.

Recommendation -- Bank reconciliations should be reviewed by an individual other than someone in Treasury.

Receipts

Central Cashiering

Audit Area Overview:

The City receives money from property taxes, water rents, sewer rents state and federal aid, and various outside departments (agencies) through the issuance of permits, licenses, fees, etc. Some of the more significant outside departments in terms of revenues include Municipal Court, Recycling, Neighborhood Services, Fire Prevention, Police (Alcoholic Beverage Control Division and Taxi Cab Division), Economic Development (Property Management), Engineering (Traffic and Signals Division and the Uniform Construction Code Division), Finance (General Licenses Division), Family and Child

Receipts (cont'd)

Central Cashiering (cont'd)

Audit Area Overview (cont'd):

Well Being, Purchasing and Vital Statistics. All receipts received from outside departments are taken to Central Cashiering for inclusion in the daily deposit and to be entered into the accounting system.

As part of our procedures, we developed an understanding of the revenue and cash receipts processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes of the revenue and cash receipts cycle. 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 is a summary of observations related to the revenue and cash receipts processes:

Revenue Collection

The central cashiering office is responsible for the deposit and recording of all revenue. The various outside departments, including treasury turns all revenue over to central cashiering. Individuals paying in cash must make the payments to central cashiering since procedures indicate that outside departments should not accept cash. The outside departments collect either checks or money orders and issue receipts to the payers. Fees are charged in accordance with schedules established by ordinances approved by the governing body. Each day when revenue is collected, the department completes a FD-3 form summarizing the receipts by type of receipt and assigns the appropriate revenue account code. The FD-3 form and the checks and money orders are taken to central cashiering where they are verified, deposited and recorded in the accounting system. The form is signed by the department and central cashiering to determine they are in agreement with the amount that was turned over.

Deposit of Receipts

Each cashier balances their drawer and reconciles it to the system for the day. After which, the central cashiering supervisor totals the receipts for all the cashiers and reconciles them to the computer system. The supervisor then enters the cash and money orders onto a deposit slip and takes the deposit to the bank escorted by a police officer. The checks are deposited using remote deposit capture (RDC) where they are scanned to the bank for deposit with the RDC machine which automatically deposits them and prints out a summary.

Recording of Revenue

Central cashiering enters the receipts into the revenue accounting system based on the revenue codes on the FD-3 forms from the departments. After the central cashiering supervisor verifies the totals to the deposits, they are uploaded into the general ledger. A copy of the form brought to central cashiering is then returned to the department. Another copy of the form is sent to finance where they are verified to the postings in the system.

Risk Assessment:

Inherent Risk - Moderate
Control Risk - Moderate

Receipts (Cont'd):

Central Cashiering (cont'd):

Control Strengths:

1. An armed police officer is on site every day in the cashiering office for security purposes.
2. The turnover of receipts from the various departments is documented and signed off by central cashiering and the department.
3. The central cashiering supervisor reviews the work of each cashier.

Control Weaknesses & Recommendations:

1. Weakness -- The central cashiering supervisor signs the adding machine tape verifying the proof sheet.

Recommendation -- The central cashiering supervisor should sign the proof sheet as documentation of verifying the proof sheet.

Tax Collector

Audit Area Overview:

A significant portion of the City's revenues is derived through the collection of taxes. The Tax Collector is responsible for the billing and collection of property taxes.

As part of our procedures, we developed an understanding of the revenue and cash receipts processes which included tax billings, delinquent tax balances, tax collections and the recording of revenue and cash receipts.

We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes over revenue and cash receipts. 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 is a summary of observations related to the revenue and cash receipts processes:

Tax Billings

The City uses the H&L software application for the tax billing process. For property tax billings, the City receives the yearly tax rate from the County of Essex. 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 February 1st, May 1st, August 1st and November 1st of the City's calendar year.

Receipts (Cont'd)

Tax Collector (Cont'd)

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. Payments received after the grace period has expired are subject to 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. In addition, any delinquency in excess of \$10,000 at the end of the calendar year is subject to a 6% penalty on the unpaid balance. There is a tax sale held once a year as mandated by the State. All properties with delinquent taxes at are subject to an annual tax sale with the exception of any properties with a bankrupt owner or a court order.

Tax Collections and Deposits

Property tax payments are collected at the window in the central cashiering office, through payments received in the mail, or through payments made to the City's lockbox. The City accepts cash, checks, money orders and credit cards. 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 in the total daily cash receipts.

Recording of Revenue and Cash Receipts

Once the cashiers verify the appropriateness of the cash receipts, they post them to the H&L software application. The postings of the cash receipts in the application are made directly to the subsidiary ledger taxpayer accounts. Once the cashier's registers have been reconciled, they are summarized on a daily report and uploaded electronically which automatically posts them to the general ledger. The department of accounts and control reviews the general ledger and verifies them to the deposits.

Risk Assessment:

Inherent Risk - Moderate
Control Risk - Moderate

Control Strengths:

1. The computer system tracks tax balances and automatically calculates the interest due on delinquent properties.

Control Weaknesses & Recommendations:

1. Weakness -- Non-cash transactions other than appeals are not approved in the minutes. In a prior year, the governing body gave blanket approval for non-cash transactions.

Recommendation -- All required non-cash transactions should be approved by the minutes.

Receipts (Cont'd)

Water and Sewer Utilities

Audit Area Overview:

As part of our procedures, we developed an understanding of the revenue and cash receipts processes which included water and sewer billings, delinquent balances, water and sewer collections and the recording of revenue and cash receipts.

We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes over revenue and cash receipts. 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 is a summary of observations related to the revenue and cash receipts processes:

The City operates a water and sewer utility to provide safe drinking water and safe conveyance of waste water to the treatment plant. The Department Head is responsible for the billing of water and sewer rents and maintaining customer accounts. Billing is based on usage and is calculated through meter readings. The meter readings are uploaded into the utility computer system. Changes can be made to the meter reading data by the billing supervisor. The system automatically calculates billing charges which are than authorized, printed and mailed. Receipts are collected by central cashiering and posted to the computer system and are uploaded into the utility computer system daily. After the information is uploaded, payments are electronically posted to the customer accounts and interest is calculated by the utility computer system. Water and sewer billings are subject to the same tax sale regulations as taxes. Water and Sewer billing complaints are investigated by the dispute committee and resolved by the water and sewer department.

Risk Assessment:

Inherent Risk - High
Control Risk - Moderate

Control Strengths:

1. Water and sewer billing calculations are prepared through the computer system.
2. Interest on water and sewer delinquencies is automatically calculated by the computer system.

Control Weaknesses & Recommendations:

1. Weakness -- Reviews of the water meter reading reports are not documented with the reviewer's signature.

Recommendation -- The reviewer of the water meter reading reports should sign off on the report.

2. Weakness -- Special interfacing is required to upload receipt information in to the water and sewer accounting system.

Recommendation -- Consideration should be given to streamline the processing of water and sewer rent collections and accounting.

Receipts (Cont'd)

Water and Sewer Utilities (cont'd)

Control Weaknesses & Recommendations (cont'd):

3. Weakness -- Interest calculations for water and sewer are too complicated.

Recommendation -- interest rates charged on water and sewer delinquencies should be simpler and made more practical.

4. Weakness -- Water and sewer billing cancellations are not approved in the minutes.

Recommendation -- All cancellations of water and sewer balances should be approved in the minutes.

Liens

Audit Area Overview:

As part of our procedures, we developed an understanding of the lien processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to lien processes:

All delinquent balances that are not subject to bankruptcy laws are marked for tax sale. A listing of delinquent balances for tax, water, sewer, special assessments and special taxes is created and advertised. These properties are included in the tax sale and become municipal or outside liens. After the tax sale, the results are entered into the computer system to be maintained and tracked. Municipal lien redemptions receipts are collected and deposited by central cashiering, fees are verified, and it is entered into the system. For outside liens, receipt amounts are verified and receipts are held and not deposited. Once the certificate holder returns the original certificate the funds are remitted to the certificate holder. For municipal liens not redeemed, they are foreclosed on annually.

Risk Assessment:

Inherent Risk - Moderate

Control Risk - Moderate

Control Strengths:

None.

Control Weaknesses & Recommendations:

1. Weakness -- Tax title lien redemption receipts are not deposited. Checks are held for pickup.

Recommendation -- Tax title lien redemptions receipts should be deposited in an interest bearing account. Also, any interest earnings would be revenue for the City.

Receipts (Cont'd)

Tax Abatement

Audit Area Overview:

As part of our procedures, we developed an understanding of the tax abatement processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the tax abatement processes:

The City has five types of tax abatement which are all authorized by ordinance. Abatement billing, receipts and balances are tracked in the computer system. Proposed abatements are reviewed by the Tax Abatement Committee which consists of three members of City Council. The Committee then makes recommendations to the governing body. New abatements are authorized by the governing body and the information is sent to the abatement department. Abatements are then calculated through a Micro-Soft Excel worksheet and the information is entered into the system. The billings are automatically generated by the system. Any delinquencies are subject to tax sale. The assessor notifies the abatement department of any expired or revoked abatements.

Risk Assessment:

Inherent Risk - High
Control Risk - High

Control Strengths:

1. The computer system tracks and bills tax abatements.

Control Weaknesses & Recommendations:

1. Weakness – There is no review of all the input data by a second individual.

Recommendation -- All abatements should be manually calculated at least for the first year and all inputs in the computer system should be verified by someone other than the individual who inputs the information.

2. Weakness -- Many properties have not submitted current financial statements for tax abatement billings.

Recommendation -- An overdue financial statement report should be generated so the abatement office can follow up with delinquent accounts on a timely basis.

Receipts (Cont'd)

Special Improvements / Assessments

Audit Area Overview:

As part of our procedures, we developed an understanding of special improvement processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to special improvement processes:

There are three Special Improvement Districts which are approved by ordinance. They are the Ironbound, Downtown and Mt. Prospect Districts. Assessments to these districts are for business improvement and development and cleaning and maintenance of infrastructure. Expenditures are made from the current fund budget and later apportioned by the tax assessor based on property values. These apportionments are approved by resolution and imputed into the system. Quarterly assessment bills are printed from the system and are processed in the same manner as property taxes.

Risk Assessment:

Inherent Risk - Moderate
Control Risk - Moderate

Control Strengths:

1. The computer system tracks special improvement balances and automatically calculates the interest due on delinquent properties.

Control Weaknesses & Recommendations:

None.

Expenditures

Audit Area Overview:

The City operates separate departments for its purchasing and accounts payable functions. The City's purchasing function is handled by the purchasing department and the accounts payable function is handled by the accounts payable department. Key employees were interviewed during our process of gaining an understanding of the processes and controls in place over the operations within each of these departments.

As part of our procedures, we developed an understanding of the purchasing, accounts payable and cash disbursement processes. Major areas included in purchasing process include purchase requisitions and approval, purchase order issuance, ordering and receipt of goods and services, accounts payable and the cash disbursement process.

We interviewed all appropriate individuals within the processes and prepared worksheets 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 is a summary of observations related to the purchasing, accounts payable and cash disbursement processes:

Purchasing Process

The City's purchasing functions are handled by the purchasing department which is responsible for the providing the final approval of 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 (N.J.S.A. 40A:11 et seq.).

All requests for purchases of materials, supplies and services must be initiated through the completion of a purchase requisition ("requisition") which is also known as a pre-encumbrance. A requisition may be completed by any of the City's employees. Once the need for a purchase has been determined, the department is responsible for obtaining quotes if the purchase is excess of the statutory quote threshold. All requisitions are completed electronically and are pre-numbered by the City's accounting system ("system").

Once it is determined that the appropriate account has been selected and funds are available, the requisition is electronically forwarded to the department manager for review and approval. Once the purchase requisition has been approved, the purchase requisition is forwarded electronically to the purchasing department.

The purchasing department has buyers assigned to the City's various departments. The buyer's responsibilities include reviewing the requisition for accuracy and completeness along with verifying that the funds are available and determining if a contract or agreement already exists. If there is no existing contract, aggregation is checked on a per item basis to determine if bids would be necessary. If bidding is necessary, the purchase would be required to go through the bid process.

The purchasing department reviews the requisition and any supporting documentation as well as the availability of funds in the budgetary accounts. Upon approval, the requisitions are electronically converted into purchase orders through the nightly automatic batching process which eliminates the unauthorized use of purchase orders. Purchase orders are automatically printed as part of the batching process and the assistant purchasing agent manually signs the original purchase order if it is not under contract.

Expenditures (Cont'd)

Purchasing Process (cont'd)

Once the purchase order is manually approved, the buyers order the goods or services based on the approved purchase order. The purchase orders are then sent to the department that originated the requisition. The department sends the purchase order to the vendor to obtain the claimants certification. The purchase order, signed by the vendor is then returned to the central billing unit with the vendor's invoice. This information is scanned in and emailed to the department while the originals are sent to accounts payable. The department verifies that the goods and services have been received and a packing slip is signed if necessary. The receiving information is entered into the system and a receiving page is printed by the department and attached to the scanned purchase order which is given back to the central billing unit. The vendor information is verified in the system by the central billing unit and the scanned copy with the receiving page is sent to accounts payable.

Accounts Payable and Cash Disbursements Process

The accounts payable department performs a three-way match of the original purchase order, the scanned in version of the purchase order and the receiving page. After the documents are verified, the original purchase order is initialed and an electronic voucher is created. The director of the department is notified of the creation of the voucher. The director then approves the voucher and an electronic notification is sent back to accounts payable. Accounts payable then processes the pay cycle, prints a trial register and verifies it against the vouchers. At this point, a check register is run and the peoplesoft consultants upload the check files to the printer. The treasury department is then notified to print the checks. After the checks are printed, they are distributed by the treasury department.

Bids and Contracts

In instances where the bidding process is required, the department initiating the requisition prepares the bid specifications and requests in for the purchasing department to begin the bidding process. The assistant purchasing agent prepares the advertisement and the bid is advertised in the City's designated newspapers. Upon receipt of bids by the purchasing department, either the applicable department or the purchasing department reviews the bid packages for all required documentation as well as compliance with the bid specifications and makes a written recommendation. The purchasing director awards contracts under \$17,500.00 and City Council awards those over \$17,500.00. The contracts over \$17,500.00 must have the resolution reviewed by the legal department before it is approved. After the award is approved, contracts are prepared by the applicable department and are signed by the purchasing director. At this time, the contracts are sent to the vendor to be signed and returned to the legal department to approve the form and legality prior to final execution.

In the case of emergencies, the department director provides the purchasing agent with a signed written requisition and signed statement of the nature and timing of the emergency. The comptroller then prepares a certificate of availability of funds.

Procurement Cards

The city does not utilize procurement cards.

Petty Cash

Several departments within the City maintain petty cash funds. A resolution is prepared annually identifying the petty cash funds authorized. A resolution is also prepared at any time during the year when the need arises for an additional petty cash fund. In the case of new petty cash funds, three copies of the application are attached to the resolution and the comptroller submits them to the director of finance. They are forwarded to the business administrator for approval. Once they are approved, they are submitted to City Council for approval and a copy is sent to the Division of Local Government

Expenditures (Cont'd)

Petty Cash (cont'd)

Services, to attain their approval. After the new petty cash receives final approval, the resolution is sent to the assistant treasurer to disburse the money to the individual custodians of each fund.

Each department that has petty cash designates a custodian to be responsible for the funds. The custodian maintains the funds in a locked box in a secure area. Employees request approval from the custodian prior to purchasing the items. Once items are purchased, the employee submits receipts to the custodian who reimburses the employee. Each custodian balances their petty cash box weekly and when funds need to be replenished, the custodian prepares a voucher request in the system and allocates the reimbursed expenses to the proper budgetary account. The request process follows the same procedures as the previous cash disbursement process.

Debt Service

The assistant treasurer is responsible for maintaining the City's debt service. A debt service schedule is prepared in order to track debt service payments. The assistant treasurer also determines the total amount due for each paying agent and also identifies the amount which remains outstanding. The determination is reconciled with the municipal debt service schedule and compared to the annual financial statement. The assistant treasurer is responsible for preparing debt service vouchers in the system and the payment follows the same procedures as the previous cash disbursement process.

The assistant treasurer also prepares a debt requirement schedule for the forthcoming year prior to the commencement of that year. The assistant director of finance also prepares a five year capital budget for distribution to various officials within the City.

Risk Assessment:

Inherent Risk - Moderate
Control Risk – Moderate

Control Strengths:

1. Requisitions go through a department review process as well as obtaining a review by the purchasing department.
2. Purchase orders are automatically generated based upon proper approvals so there is no unauthorized use of purchase orders.
3. The check printing process is performed in a separate department from the check register preparation process.
4. Only two individuals have access to print checks.
5. Positive pay is used to help ensure that only approved checks are paid by the bank.

Expenditures (Cont'd)

Control Weaknesses & Recommendations

1. Weakness -- There is no procedure to verify that all vendors paid are not on the suspended and debarred contractor's list.

Recommendation -- Incorporate a check of vendors for being a suspended and debarred contractor as part of the purchase order approval process.

2. Weakness -- Aggregation is not checked by category. It is only checked on a per item basis.

Recommendation -- Similar purchases should be reviewed for aggregation purposes to be in compliance with the local public contracts law.

3. Weakness -- The PeopleSoft consultants were part of the check preparation process in 2008 however, this has been changed for 2009.

Recommendation -- A high level city employee should upload the check files to the printer.

4. Weakness -- Some vendors were not flagged in the system to receive a 1099.

Recommendation -- All vendors should be reviewed and flagged to either be issued or not issued a 1099.

Payroll

Audit Area Overview:

As part of our procedures, we developed an understanding of the payroll and human resources processes. These processes included the new hire process, termination of employees, processing of payroll, maintenance of payroll deductions payable, and accrual of time.

We interviewed all appropriate individuals within the processes and prepared a worksheet 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.

The following is a summary of observations related to the payroll and human resource processes:

New Hire Process

The various municipal departments have the ability to advertise and search for new employees. Upon determination of the need by a department to hire an individual, the appropriate division head is required to notify the personnel department. The personnel department obtains the required information from the prospective employee and then enters the employee's information into the system.

Termination of Employment

Termination of employment begins at the various City department levels. If an employee resigns, retires or is terminated by the City, the appropriate division head is required to notify the personnel department so the personnel database can be adjusted.

Payroll (Cont'd)

Processing of Payroll

Payroll is processed on an exception basis which means that the payroll amounts for all employees are automatically calculated each pay period based upon initial salary and wage information established in the system. Each department is responsible for tracking their employee's time. For each pay period, the timekeeper at each department reviews the employee time records and adjusts a standard excel form which is submitted to payroll through email. Support for any exceptions is also forwarded to the payroll department. The payroll department reviews the worksheets and uploads them into the system and makes any necessary adjustments. The payroll department pulls in and verifies the budget account updates. Then payroll prints various reports to check for obvious errors than verifies the totals for the pay period. Checks are then sent to the printer for the Treasury Department to print and distribute to the various departments. The departments then review the checks against the payroll registers which are emailed to them by the payroll department. If errors are found, the checks are voided and a new check is created. Departments must obtain approval from their chief clerk, their department director, the assistant comptroller, the finance director and sometimes the budget director for the new check requests which are submitted to payroll for processing. The departments are than responsible for distributing the checks to employees.

Payroll Deduction Procedures

Payroll sets up and runs validations on all deductions including garnishments form court agreements, changes in union agreements, contract changes and changes in rates. The validations are run to verify that the changes are calculating properly. The treasury department is responsible for preparing and filing the quarterly reports as well as wiring the funds for payroll taxes. Agency balances are tracked in the system as well as in excel.

Compensated Absence / Accumulated Time

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

Each department has a person known as the timekeeper who is responsible for tracking the usage of time off for all employees in their department. The timekeeper maintains employee time records by inputting allotted time off per contracts and adjusting for time off utilized. All employees are required to submit forms whenever than plan to take off or have missed work. The supervisor for each department reviews the forms prior to them being submitted to the timekeeper. Each month, the time records are submitted to the department's director and also to the personnel director.

Risk Assessment:

Inherent Risk - High
Control Risk - High

Control Strengths:

1. New and terminated employees are entered in to the payroll system by a separate department from the payroll processing function.
2. Salary amounts are calculated by the budget department which is a separate department than the payroll processing function.

Payroll (Cont'd)

Control Weaknesses & Recommendations:

1. Weakness -- Each department tracks their employees' time in their own way. (Either a hand scanner, time clock, etc)

Recommendation -- Institute a standard online time tracking system that payroll can also view and use as part of the payroll process.

2. Weakness -- Payroll does not verify the change of rates that the various departments used when employees are paid differently than the normal amount.

Recommendation -- All rates of pay should be verified by the either payroll or the budget office.

State and Federal Grants

Audit Area Overview:

As part of our procedures, we developed an understanding of the grant accounting process. We interviewed certain individuals within the process and prepared a worksheet 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 is a summary of observations related to the grant accounting process:

Each City department head initiates grant applications for their respective department or area of responsibility. The department requesting the grant is required to complete the application and submit it to the grantor.

Upon receipt of an approved grant, the applicable department sends the grant agreement to the legal department for their review. It is then approved by city council. Once city council approves the grant application, it is reviewed by the law department again and it is signed. At this point, the grant would either be appropriated through a chapter 159 or it would be included in the subsequent budget. The timing of the grant period determines the manner in which the City appropriates the funds. If the annual budget has not yet been introduced, the grant will be included in the annual budget as an item of revenue offset with an appropriation. If the annual budget has been introduced, but not yet adopted, City Council would introduce a budget amendment. If the grant is accepted after the annual budget has been adopted, the City Council would adopt a resolution requesting that the Division to allow the City to insert a special item of revenue and appropriation (Chapter 159) into the annual budget, allowing the City to appropriate the funds immediately. Once the grant has been appropriated, the revenue and expenditure accounts in the Current Fund would be fully charged and a grant receivable and an appropriated reserve would be established 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 unappropriated reserve. During the subsequent year's budget process, the City can anticipate these unappropriated reserve funds in the budget.

Any expenditure of grant funds is subject to the City's normal purchasing policies and is processed and recorded as any other purchase order. In addition to the normal expenditure process, the voucher package is also sent to the grant accounting department where they make sure the money is available in the grant and the purchase is in compliance with the grant agreement. Each department as well as grant accounting tracks expenditures for each grant to determine they are not over-expended.

State and Federal Grants (Cont'd)

Audit Area Overview (cont'd):

Any requests for draw downs or reimbursements from a grantor are completed by the applicable department head that is designated as the department's grant administrator. Before they are submitted to the grantor, they are reviewed by the grant accounting department for accuracy. The treasury department receives the checks or sees the wire transfers and fills out the FD-3 form which goes through the normal receipt process and a copy of the FD-3 form is sent to the grant accounting department. Grant accounting verifies the grant was posted correctly in the system and is up-loaded into an excel worksheet that is used to track receivables.

Most compliance requirements are reviewed and administered at the department level.

Risk Assessment:

Inherent Risk - High
Control Risk - High

Control Strengths:

None.

Control Weaknesses & Recommendations:

1. Weakness -- All receipts are posted to either the grants receivable or the grants unappropriated accounts. Receivables are not tracked by grant in the computer system.

Recommendation -- All grant receipts should be posted to individual accounts so that receivables can be tracked by grant in the computer system.

2. Weakness -- Most of the compliance requirements are administered by the department that is in charge of that specific grant.

Recommendation -- All compliance requirements should be reviewed or monitored to ensure that each department is in compliance with the grant agreement.

3. Weakness -- Although grant accounting reviews the reporting of grants, there is a lack of control and administrative oversight to ensure grants agreements are complied with, grants are expended and received timely, and that all administrative requirements are followed.

Recommendation -- The requirements of each grant should be documented and communicated to the various departments to ensure that grant requirements are met.

Supplies

Audit Area Overview:

As part of our procedures, we developed an understanding of the supply inventory processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the supply inventory processes:

All departments have supplies, however, there are two locations, Little Falls and Central Avenue, that are deemed to have significant inventory on hand. The Little Falls location for water supplies does not maintain an inventory listing but the Central Avenue location for water supplies does maintain a listing. The listing is maintained by one individual who is the only one to have access to it and no one else reviews it. Employees fill out a request form in order to obtain supplies and a return form to give supplies back. An actual physical check of inventory is not performed so the listing is not tied back to the actual inventory on hand.

Risk Assessment:

Inherent Risk - Moderate
Control Risk - High

Control Strengths:

None.

Control Weaknesses & Recommendations:

1. Weakness -- There is no inventory listing for motors supplies.

Recommendation -- An inventory listing should be maintained for all departments that stock a significant amount of supplies.

2. Weakness -- There is no inventory listing for the Little Falls location for water supplies.

Recommendation -- An inventory listing should be maintained for all departments that stock a significant amount of supplies.

3. Weakness -- The water Central Avenue inventory listing is not reviewed by anyone other than the preparer.

Recommendation -- The water inventory listing should be reviewed by someone other than the preparer.

4. Weakness -- No one verifies the use of supplies to work completed.

Recommendation -- A review of supplies used to the supplies requested and then returned would help ensure proper use of water supplies.

Supplies (Cont'd)

Control Weaknesses & Recommendations (cont'd):

5. Weakness -- A physical inventory is never performed to reconcile the listing to the actual inventory on hand.

Recommendation -- A physical inventory should be performed at least once a year for all inventories maintained.

6. Weakness -- The water inventory listing is maintained in units but the cost per unit is not included in the inventory listing.

Recommendation -- The inventory listing should include the cost per unit so the amount can be included in the audit report.

Capital Assets

Audit Area Overview:

As part of our procedures, we developed an understanding of the capital asset processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the capital asset processes:

N.J.A.C. 5:30-5.6 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 and retirements, 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. Each department maintains a listing of their own assets and there is no master listing consisting of all the assets for the entity as a whole.

Disposal of assets begins at the department level. Each department reports all assets that have become obsolete and the proposed disposition for each item to the purchasing director. The purchasing director makes the determination on how the assets are to be disposed of. Once a significant number of assets have been determined to be sold at a public auction, council approval for the sale is obtained. A sale is then advertised and conducted.

Risk Assessment:

Inherent Risk – Moderate
Control Risk - High

Capital Assets (Cont'd)

Control Strengths:

None.

Control Weaknesses & Recommendations:

1. Weakness -- Fixed asset listings are not complete for every department and many departments do not have a listing.

Recommendation -- An up to date fixed asset listings should be completed for every department and procedures for preparation of the listing should be consistent.

2. Weakness -- There is no master accounting and accumulation of assets for the entity as a whole.

Recommendation -- A city wide fixed asset inventory should be performed since the last inventory was completed in 2004.

3. Weakness -- If assets are discarded, they are not approved by the governing body.

Recommendation -- All fixed assets disposals should be approved by the governing body even if they are discarded and not sold.

Insurance - Outside

Audit Area Overview:

As part of our procedures, we developed an understanding of the insurance purchasing processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the insurance purchasing processes:

The City of Newark utilizes outside insurance coverage for health, property and surety bonds. An insurance broker is awarded a contract through a fair and open process. The broker obtains cost proposals for health insurance coverages and submits them to the business administrator and the personnel department for review. Council makes the final determination on which health insurance providers to utilize. Decisions for health insurance coverages must be based on the least cost to the City and still maintain "better or equal to existing coverage". This is required per the language in all existing labor agreements. Property and surety bonds coverages are analyzed by the insurance fund committee, consisting of the Business Administrator, Chief Financial Officer and legal representative, which meets monthly. The Business Administrator recommends to the City Council the vendor to be utilized based on the insurance fund committee's recommendation.

Risk Assessment:

Inherent Risk - Low
Control Risk - Low

Insurance – Outside (Cont'd)

Control Strengths:

None.

Control Weaknesses & Recommendations:

None.

Self Insurance – Workers Compensation

Audit Area Overview:

As part of our procedures, we developed an understanding of the workers compensation self insurance processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the workers compensation self insurance processes:

The City has established a self-insurance program 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 claims including workers' compensation obligations.

The City is self insured for workers' compensation and has an insurance fund committee that oversees the operations of the fund. The City uses a safety committee that trains employees to encourage proper procedures regarding equipment use and safety clothing, etc. The City utilizes a third party administrator who is awarded a contract through a formal request for qualifications process. The third party administrator contract is awarded by the governing body based on a recommendation by the insurance fund committee. CCMSI, the third party administrator provides the City with a SAS 70 internal control report on CCMSI's controls.

The claim process initiates with communication by the employee to the 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 an accident report which is to be signed off by their supervisor. This report is then sent to a City approved doctor and the law department employee who will be handling the case. After the employee is evaluated by the approved doctor, the doctor emails an evaluation report to the third party administrator and to the Law Department. The third party administrator opens a claim file in the online system that is accessible to the Law Department. The claim is then reviewed by the Law Department for reasonableness. All treatment bills go to the third party administrator who prepares a bill list to be sent to the law department for approval. A voucher is prepared and processed and wired to the third party administrator who then pays the bills.

Risk Assessment:

Inherent Risk - Moderate
Control Risk - Low

Self Insurance – Workers Compensation (Cont'd)

Control Strengths:

1. Monthly meetings are held by the self insurance fund committee to address all issues regarding self insurance.
2. The third party administrator for workers compensation has a SAS 70 report on file with the City.

Control Weaknesses & Recommendations:

None.

Self Insurance – Other Insurances

Audit Area Overview:

As part of our procedures, we developed an understanding of the other self insurance processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the other self insurance processes:

The City is self insured for automobile, general liability, and the first \$50,000.00 of public employee dishonesty coverage. All reserve funds are held in one account but each type of insurance is tracked separately. The insurance fund committee is notified of potential significant claims and is responsible for the self insurance funds. Litigation attorneys handle the claims and determine the amounts to be paid. The amounts go through an approval process then run through the same disbursement process as other expenditures.

Risk Assessment:

Inherent Risk - Moderate
Control Risk - Low

Control Strengths:

1. Monthly meetings are held by the self insurance fund committee to address all issues regarding self insurance.

Control Weaknesses & Recommendations:

None.

Pension

Audit Area Overview:

As part of our procedures, we developed an understanding of the pension processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the pension processes:

The City accounts for four different pension plans. The two offered and administered by the State of New Jersey are the Public Employees' Retirement System and the Police and Firemen's Retirement System. The two plans offered by the City are self administered plans. One is a contributory plan and the other is a non-contributory plan. New employees are not permitted to enter into the self administered plans. For the state plans, applications are entered into the online state system. The pension department downloads and adjusts the quarterly reports from the State.

The City's pension board oversees the activity of the self administered plans. Pension listings are updated through a review of the obituaries as well as sending affidavits to be completed by the pensioners. Payments are made to the retirees through the payroll system and IRS 1099-R forms are issued at the end of the year instead of IRS W-2 forms. The pension department calculates the amounts to be received for each members of the contributory plan and submits it to the pension board for review. Non-contributory members receive 50% of their pre-retirement salary. Both payment types are submitted to payroll by the personnel office.

Risk Assessment:

Inherent Risk - Moderate
Control Risk - Moderate

Control Strengths:

1. Each retiree's pension payment is reviewed by the pension board.

Control Weaknesses & Recommendations:

1. Weakness -- An actuary report is not always completed annually.

Recommendation -- The actuary report identifying the potential accrued pension liability should be completed annually.

General Ledger Maintenance

Audit Area Overview:

As part of our procedures, we developed an understanding of the general ledger processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

General Ledger Maintenance (Cont'd)

Audit Area Overview (cont'd)

The following is a summary of observations related to the general ledger processes:

N.J.A.C. 5:30-5.7 requires 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.

Receipts and disbursements are posted to the general ledger automatically. Periodically, the comptroller enters manual entries as deemed necessary. The accounting staff ties back the subsidiary ledgers to the general ledger on a daily basis. At year end, the comptroller meets with the departments to clean up outstanding purchase orders.

Risk Assessment:

Inherent Risk - Moderate
Control Risk - High

Control Strengths:

None.

Control Weaknesses & Recommendations:

1. Weakness -- The work performed to reconcile the general ledger to subsidiary records is not documented.

Recommendation -- Documentation should be maintained supporting journal entries made based on work performed to reconcile the general ledger to subsidiary records.

Information Technology Hardware and General Controls

Disaster Recovery and Contingency Planning

Audit Area Overview:

As part of our procedures, we developed an understanding of the disaster recovery and contingency planning processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

Risk Assessment:

High.

Control Strengths:

1. Data backups of the City's servers and computers are performed on a daily basis through a tape library. The methodology used is to make a complete backup on Fridays and incremental backups Monday through Thursday. The incremental backups are retained for 30 days and full backups are retained for 13 months. The data retention policy is determined by the City's Legal Office. Offsite

Information Technology Hardware and General Controls (Cont'd)

Disaster Recovery and Contingency Planning (cont'd)

Control Strengths (cont'd):

storage is located in Clifton, NJ and is maintained and performed by a third party service. The backup administrator audits the offsite location quarterly to ensure the media is kept in a secure, climate controlled environment. Test restores are performed on a weekly basis to ensure data integrity and recovery.

2. By policy, all servers must be located in the datacenters and managed by the City of Newark's Office of Management and Budget (OMB). The datacenters consist of raised flooring and have adequate ventilation and cooling. Surge protectors and uninterruptible power supplies are utilized throughout the City to mitigate short-term power issues.

Control Weaknesses & Recommendations:

1. Weakness -- The overall disaster recovery and/or business continuity plans have not yet been established by the City of Newark.

Recommendation -- A disaster recovery plan should be developed, maintained and tested.

2. Weakness -- There is not an active fire suppression system in the datacenters. A halon fire suppression system exists in the datacenter but has not been maintained and has subsequently been disabled.

Recommendation -- OMB should review the current state of the existing fire suppression system and determine if it can be updated, maintained or replaced with a new system.

3. Weakness -- Offsite storage is not maintained for OMB policies and procedures, application media and related documentation.

Recommendation -- Copies of the policies and procedures, application media and any other related documentation should be stored offsite with the backups.

4. Weakness -- There is no backup power supply to the datacenter in the event of an extended power outage. Battery backups are in place but are only sufficient to provide ample to time to properly shut down computer equipment.

Recommendation -- Power generators should be considered to assist in keeping the datacenters up and running in the event of an extended power outage.

Computer and Server Maintenance, Management, Monitoring

Audit Area Overview:

As part of our procedures, we developed an understanding of the computer and server maintenance, management and monitoring processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

Risk Assessment:

Moderate.

Information Technology Hardware and General Controls (Cont'd)

Computer and Server Maintenance, Management, Monitoring (cont'd)

Control Strengths:

1. All information technology purchases for the City are handled by OMB. If a user requests a specific software package or specific hardware, OMB reviews the request and determines validity, feasibility and compatibility. Computers and servers are purchased in bulk to promote make, model and specifications standardization. As new computers are distributed, old computers are repurposed throughout the City.
2. Symantec Altiris is utilized to periodically audit workstations and servers. Logs generated by the software are reviewed for anomalies such as exceeded licensing and unapproved application installations. If an anomaly exists, a Help Desk Technician is dispatched to physically go to the workstation to correct it immediately. Cisco Network Agent (CNA) is used to monitor and manage network switches and routers. The CNA logs are reviewed on a daily basis for possible threats and anomalies.
3. Software is used on all servers and desktops to protect against spyware and virus threats. The software definitions are downloaded by the servers and pushed out to all workstations weekly.
4. Server and desktop security patch updates are tested for compatibility in the test environment prior to being rolled into production.

Control Weaknesses & Recommendations:

1. Weakness -- Computers are left in service longer than their useful life. As a result, key production computers are in service without maintenance contracts and/or warranties.

Recommendation -- A computer life cycle should be identified and followed. Once a computer has exceeded its useful life, it should be removed from production and replaced.

2. Weakness -- There are no controls over security patch management as updates and patches are not applied on a systematic basis.

Recommendation -- Controls should be established so that security updates and patches can be rolled out timely and effectively across the City.

3. Weakness -- There are no restrictions on external media drives being used at computer terminals. USB ports should be locked down on all workstations and opened up on an as needed basis.

Recommendation -- External media devices should be locked down on all computers except where necessary for business purposes. Controls should be established to track and monitor what users can utilize external media devices and who authorized such access.

Information Technology Hardware and General Controls (Cont'd)

Datacenter Access

Audit Area Overview:

As part of our procedures, we developed an understanding of the datacenter access processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

Risk Assessment:

Low.

Control Strengths:

1. The datacenter is secured and monitored at all times. The entry doors to the datacenters are locked and can be accessed one of two ways. Badge access is limited to only to authorized personnel and there is buzzer access and intercom at the entrance. The buzzer is pressed and the person(s) attempting to enter is identified via the security cameras. A door release is activated and the person(s) can enter.
2. Security cameras are at each datacenter entrance and are continuously monitored. The datacenter has adequate ventilation and temperature controls provided by the HVAC system.

Control Weaknesses & Recommendations:

1. Weakness -- There is no record maintained of visitor access to the datacenter.

Recommendation – The City should consider a sign in sheet or other logging mechanism to record visitor and/or vendor traffic to the datacenter.

User Access and Security

Audit Area Overview:

As part of our procedures, we developed an understanding of the user access and security processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

Risk Assessment:

Moderate.

Information Technology Hardware and General Controls (Cont'd)

User Access and Security (cont'd)

Control Strengths:

1. There is a formal process established as it relates to establishing user accounts. Once an employee is hired, a form must be completed by department heads that includes job title and required network and applications access. The form is submitted to the OMB helpdesk at which point the account is established. The same form is also used to track user rights changes and deletions.
2. Employees are trained and urged to utilize strong passwords. The City defines a strong password as having at least eight alphanumeric characters long, containing both upper and lower case characters, numbers and symbols, not being based on personal information, names of family etc, and never being written down or stored in or around workplace.
3. Employees are required to review and understand the City's Acceptable Use Policy.
4. Internet access is restricted and monitored by a proxy server. Users are only granted access to the internet if approved is granted by department heads. Once approved, a help desk request is submitted. A user account for the proxy is issued and help desk configures the workstation to open the internet up.
5. Firewalls are utilized and the appropriate management and monitoring software has been implemented. Logs are reviewed and monitored daily for threats and anomalies.

Control Weaknesses & Recommendations:

1. Weakness -- Overall leadership as it relates to security rights management is missing. There are five helpdesk employees that have the responsibility of managing user accounts. There is no review process over account management to ensure security rights are being distributed and/or maintained properly.

Recommendation -- One employee should be responsible for periodically reviewing the user security tables.

2. Weakness -- User accounts are not always disabled when an employee is terminated voluntarily or involuntarily. There is lack of communication between Human Resources and OMB at times.

Recommendation -- OMB should be notified in a timely fashion whenever an employee is no longer employed by the City.

Information Technology Hardware and General Controls (Cont'd)

Remote Access

Audit Area Overview:

As part of our procedures, we developed an understanding of the remote access processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

Risk Assessment:

Low.

Control Strengths:

1. Only approved City employees have VPN access. Private keys are utilized with strong passphrases. When a user is connected via VPN, all traffic is forced through the encrypted VPN tunnel. VPN tunnels are closed after 30 minutes of inactivity.
2. There is an informal policy in place with regards to how outside third parties are granted access to the City's systems. A VPN account is created for the vendor. Prior to connecting, the vendor must call ahead. The connection is then monitored until the third party notifies the City they have finished and disconnected at which time the VPN account is disabled. If the connection is idle for too long, the City will manually terminate the connection and follow up with the third party.

Control Weaknesses & Recommendations:

1. Weakness -- A formal policy and/or procedure have not been drafted to support the OMB process for third parties.

Recommendation – A formal policy and/or procedure should be developed. It should include a form the third party completes defining what level of access is needed, purpose and length of time needed. Once access is granted or terminated, OMB should sign off on the form and maintain a copy for their records.

Information Technology Hardware and General Controls (Cont'd)

Organizational Controls

Audit Area Overview:

As part of our procedures, we developed an understanding of the organizational controls processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

Risk Assessment:

Low.

Control Strengths:

1. Security briefings for information technology personnel are held on a regular basis. OMB relies on updates from Microsoft, Cisco, Trend Micro subscriptions etc.
2. OMB personnel go through background screenings during the hiring process. Employees are required to have professional certifications in order to perform certain job roles.
3. OMB personnel are prohibited for initiating or authorizing transactions in PeopleSoft. Personnel are also restricted from having access to source code, development tools to modify source code as well as utilities that can access the database.

Control Weaknesses & Recommendations:

1. Weakness -- OMB personnel are not required to take one contiguous week of vacation.

Recommendation – Employees should be required to take at least one contiguous week of vacation and their duties should be performed by other personnel in their absence.

Information Technology Computer Applications

Computer Applications – (Software) PeopleSoft

Audit Area Overview:

As part of our procedures, we developed an understanding of the PeopleSoft computer application processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

PeopleSoft's Development and Implementation team assesses operational and systemic risk. Operational risk is associated with the risk of fraud, properly controlled user accounts and management of inputs and outputs. Systemic risk covers errors and irregularities related to database management, application processing, system availability and continuity, and controls over the system development life cycle.

PeopleSoft has been tasked by the City of Newark to implement PeopleSoft Financials. In addition, PeopleSoft is responsible for maintaining procedures to reduce and control systemic risk. PeopleSoft also provides complete application support to the city with concentrations in application backups and data retention which is tested frequently, application recovery which is tested monthly, access to content which is controlled by user accounts, and data transfer.

Operational risk is assessed and controlled by the City's Office of Management and Budget. The department maintains the server and information technology infrastructure which supports PeopleSoft application. The information technology management group has defined and implemented tracking systems that manages operational events such as application and server errors.

Risk Assessment:

Low.

Control Strengths:

1. The City of Newark's third party vendor (PeopleSoft) manages the development, system controls and delivery of the main accounting application. There is a standing contract between the City of Newark and PeopleSoft. The City has an appropriate vendor management guideline in place which all third party vendors have to adhere. PeopleSoft published their development standards in conjunction with the City's standard operating procedures (SOP's). The SOP's includes the definition of technical standards, implementation, change management procedures and database management.
2. Both PeopleSoft and the City of Newark have well documented policies and procedures that define user access and controls. The procedures also define new development projects, change management, quality assurance testing, user acceptance testing and production launches.

Information Technology Computer Applications (Cont'd)

Computer Applications – (Software) PeopleSoft (cont'd)

Control Weaknesses & Recommendations:

1. Weakness -- The financial application development effort and support is managed in a limited capacity by the City under the control of a steering committee which consists of managers within the Accounting Group and managers within the Office of Management and Budget (OMB). The steering group only meets four times a year.

Recommendation – The steering committee should meet more than four times a year.

Control of Data Input, Output and Processing

Audit Area Overview:

As part of our procedures, we developed an understanding of the control of data input, output and processing processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

Risk Assessment:

Low.

Control Strengths:

1. The City of Newark in conjunction with PeopleSoft has application controls in place over the end to end Accounts Receivable and Payable process. Through observation, the gathering of information processes and procedures and policies, it is apparent that users are restricted in the application based on system architecture and their personal access and rights to the application. Examples where data input controls procedures are critical:
 - Input of a transaction – The person inputting a transaction is not the same person approving the transaction.
 - Master file changes – Only the Administrator is allowed to make changes to the master file.
 - Data integrity – Adequate system controls are in place to assure the integrity of information being uploaded into the system.
2. Data Integrity and Processing: PeopleSoft has implemented procedures and controls to detect the completeness, accuracy and integrity of processed data. Through exception reporting and reconciliation each office utilizing the application generates detailed reports that are continuously monitored and maintained. Examples of procedures that detect data integrity are:
 - Systemic reconciliation with PeopleSoft application - Logical technology exists within the application to detect systemic errors.
 - Production exception reports – The reports are produced daily, weekly and monthly for supervisory review.
 - Database Management – PeopleSoft application resides in its own database which is monitored closely for interruptions, backups and ongoing development enhancements and changes.

Information Technology Computer Applications (Cont'd)

Control of Data Input, Output and Processing (cont'd)

Control Strengths:

3. The Management Group at the City in conjunction with the PeopleSoft resources has the responsibility to maintain data integrity. Changes to the Master data file are limited to specific resources within the accounts payable and receivable departments. Daily error and processing logs are reviewed and all systemic driven data being output is properly formatted and identified. The overall processing of data does not rely on machine readable formatting.

Control Weaknesses & Recommendations:

None.

End User Operational Controls

Audit Area Overview:

As part of our procedures, we developed an understanding of the end user operational controls processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

Risk Assessment:

Moderate.

Control Strengths:

1. End user and operational risk is assessed and controlled by the City's Office of Management and Budget. This department maintains the server and Office of Management and Budget information technology infrastructure, which supports the PeopleSoft application. Information technology management has defined and implemented tracking systems that record operational events such as incidents, errors and problems. Environmental controls are also being monitored for fluctuations in temperature and humidity as well as power interruptions. Uninterruptible power supplies are in place if the city's power supply was interrupted. The appropriate information technology segregation of duties controls are in place where personnel in the Office of Management and Budget group do not have the responsibility for transaction and accounting duties..
2. The segregation of controls between the Office of Management and Budget and the Application Development Team (PeopleSoft) is significant. Controls over the network, application and database are a joint effort between the application and database teams. Application, database and operating system changes are tracked through an online Enterprise Resource Planning system. Areas where strengths were identified are:

Information Technology Computer Applications (Cont'd)

End User Operational Controls (cont'd)

Control Strengths:

- Network – User access right are granted on a need to do basis.
- No shared network privileges and user access rights.
- Access to perimeter, firewall and routers are adequately managed.
- Robust intrusion detection software is in place.
- Application - User access is restricted and controlled by the Administrator.
- Database Management – Changes are tracked in centralized change tracking database or system.

Control Weaknesses & Recommendations:

1. Weakness – The Office of Management and Budget Information technology steering committee meets four times a year.

Recommendation – Increased Office of Management and Budget Information technology steering committee should meet more than four times a year to improve operational and strategic efficiency.

2. Weakness – Although there are continued monitoring of user accounts by both the applications group People Soft and the Office of Management Information technology team, occasionally, terminated employees are not restricted in a timely manner.

Recommendation – User account restrictions and monitoring of terminated employees by PeopleSoft and the Office of Management Information technology team should be performed in a timely manner.

Outside Offices

Municipal Court

Audit Area Overview:

As part of our procedures, we developed an understanding of the municipal court processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the municipal court processes:

The State of New Jersey has a unified court system and therefore, all the courts in New Jersey utilize the same computer system. The City of Newark court has three divisions which are utilized to conform to State standards. The traffic violation bureau processes traffic summonses issued by the various law enforcement departments within the City. The criminal division processes all disorderly complaints and holds trial jurisdiction over those complaints. The customer service division responds to communication from the public.

Ticket books are pre-numbered and logged when issued to the officers. Fees charged are set by state statutes, city ordinance or the municipal judge. All receipts collected must be entered into the computerized system which allocates the fines and costs and automatically generates a receipt. Reports are printed from the system for tying out daily deposits, creating monthly checks and reconciling the accounts.

Risk Assessment:

Inherent Risk - High
Control Risk - Moderate

Control Strengths:

None.

Control Weaknesses & Recommendations:

1. Weakness -- The deposit total is verified, however, the allocation of cash and check amounts are not tied in.

Recommendation -- Each day's deposit allocation between cash and check amounts should match the computer system.

2. Weakness -- Cashiers can write and utilize the signature plate to prepare a check. There are no controls over the signature plate.

Recommendation -- The signature plate should be accessible to only one or two court employees and those employees should not have check writing access.

3. Weakness -- Checks can be issued without a review process.

Recommendation -- All check requests should be required to be reviewed and approved prior to the printing of the checks.

Outside Offices (Cont'd)

Recycling

Audit Area Overview:

As part of our procedures, we developed an understanding of the recycling receipt processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the recycling receipt processes:

Newark workers make scrap metal deliveries to the recycling centers and receive a check in Newark's name based on the tonnage. The check is later turned over to the recycling department. In addition, Waste Management collects other of the recyclable materials for the city, delivers it to the recycling centers and maintains the accounting for the deliveries. Periodically Waste Management issues checks to the City for the money they received for the deliveries which is sent to the recycling department. The recycling department records the check in their manual cash book and prepares a FD-3 and the check is sent to central cashing for posting and deposit.

Risk Assessment:

Inherent Risk - Moderate
Control Risk - High

Control Strengths:

None.

Control Weaknesses & Recommendations:

1. Weakness -- Waste Management drop off slips received from the recycling centers are not reconciled back to checks paid to Newark.

Recommendation -- Waste Management drop off slips should be reconciled back to checks paid to Newark to ensure that all funds due Newark are received.

Outside Offices (Cont'd)

Vital Statistics

Audit Area Overview:

As part of our procedures, we developed an understanding of the vital statistics receipt processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the vital statistics receipt processes:

The Vital Statistics department collects fees for marriage and domestic partnership licenses and birth and death certificates. The fees collected are set by state statute and City ordinance. Applications are completed, reviewed and approved prior to money being collected. The cashier approves, initials, and dates the application. The license or permit is then approved for processing by a vital statistics employee. Each day the supervisor enters the receipts onto a FD-3 form which is taken to central cashiering for posting and deposit.

Risk Assessment:

Inherent Risk - Moderate
Control Risk - Moderate

Control Strengths:

None.

Control Weaknesses & Recommendations:

1. Weakness -- There is no process that is used to reconcile back the receipts from the central cashiering office and collected by the registrar's office to the registrar's fees and licenses issued and recorded in the computer system.

Recommendation -- A reconciliation of receipts collected should be performed from central cashiering to the registrar's office.

Outside Offices (Cont'd)

Fire Prevention

Audit Area Overview:

As part of our procedures, we developed an understanding of the fire prevention receipt processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the fire prevention receipt processes:

The fire prevention department seeks to reduce the loss of life, property damage and injuries from fire incidents through building inspections, code enforcement, construction plan reviews and fire safety education. This office collects fees for smoke detectors and various fire permits which are set by City ordinance. The cashier or inspector collects funds, issues receipts and makes copies of the checks or money orders and the receipt stubs to be turned over to the data processing technician. The data processing technician records the transaction in the computer system and each day fills out a FD-3 form and turns the funds over to central cashiering for posting and deposit.

Risk Assessment:

Inherent Risk - Moderate
Control Risk – High for 2008 and Moderate for 2009

Control Strengths:

None.

Control Weaknesses & Recommendations:

1. Weakness -- Inspectors and cashiers collected fees and both had receipt books during 2008.

Recommendation -- Only the cashiers should have a receipt book and collect fees. This has already been corrected in 2009.

Outside Offices (Cont'd)

Police – Alcoholic Beverage Control

Audit Area Overview:

As part of our procedures, we developed an understanding of the police alcoholic beverage control receipt processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the police alcoholic beverage control receipt processes:

The Alcoholic Beverage Control Board maintains the files and records of the liquor licenses in the City of Newark. They regulate the sale and distribution of alcoholic beverages of each licensee and ensure that all licensees follow the state and municipal laws, rules and regulations governing their operation. Fees are set by ordinance and collected for license renewals and transfers along with finger printing. Everyone in the office collects money and each receipt is entered into a receipt book. Each day the chief clerk enters the receipts on a FD-3 form which is taken to central cashiering for posting and deposit.

Risk Assessment:

Inherent Risk - Moderate
Control Risk – Low

Control Strengths:

None.

Control Weaknesses & Recommendations:

None.

Outside Offices (Cont'd)

Economic Development – Property Management

Audit Area Overview:

As part of our procedures, we developed an understanding of the economic development property management receipt processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the economic development property management receipt processes:

The property management division of economic development department provides real estate management services for properties acquired by the City until they can be returned to the city tax rolls. They maintain rental agreements as well as collect and track the rental income. Receipts are entered into a manual log book and a manual receipt is given to the customer. Data processing enters the receipts into the subsidiary ledger. Data processing completes a FD-3 from and the receipts are taken to central cashing for posting and deposit.

Risk Assessment:

Inherent Risk - Moderate
Control Risk – Moderate

Control Strengths:

None.

Control Weaknesses & Recommendations:

1. Weakness – The subsidiary ledgers utilized to track property balances should not be maintained on manual ledgers.

Recommendation – Consideration should be given to track property balances utilizing a computer program.

Outside Offices (Cont'd)

Receipts Collected in the Purchasing Department

Audit Area Overview:

As part of our procedures, we developed an understanding of the purchasing receipt processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the purchasing receipt processes:

The purchasing department handles the sale of municipal assets which includes advertising the sale and collecting the revenue. They are also involved in the bidding process and have to collect funds for bid specifications and bid bonds. The administrative fees for towing receipts also flow through this office. A manual receipt is given to individuals who pay in person and receipts collected through the mail are not documented in the receipt book. Each day purchasing completes a FD-3 form and the receipts are taken to central cashiering for posting and deposit.

Risk Assessment:

Inherent Risk - Moderate
Control Risk – Low

Control Strengths:

None.

Control Weaknesses & Recommendations:

None.

Outside Offices (Cont'd)

Engineering – Traffic and Signals

Audit Area Overview:

As part of our procedures, we developed an understanding of the engineering traffic and signals receipt processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the engineering traffic and signals receipt processes:

The traffic and signals division of the engineering department provides comprehensive planning, development, construction management, replacement and operation of the City's transportation infrastructure to ensure the safety and ride-ability of the city streets. Once the applications have been reviewed and approved, fees are collected for street and sidewalk permits in accordance with City ordinance. Fees are charges for openings, restorations and other construction in addition to curbs, driveways, construction fence, scaffolds, etc. The cashier enters receipts in the cashbook and fills out a pre-numbered receipt. Each day, engineering fills out a FD-3 and submits it to central cashing for posting and deposit.

Risk Assessment:

Inherent Risk - Low
Control Risk – Low

Control Strengths:

1. Prenumbered receipt books are utilized for the collection of receipts.

Control Weaknesses & Recommendations:

None.

Outside Offices (Cont'd)

Engineering – Uniform Construction Code

Audit Area Overview:

As part of our procedures, we developed an understanding of the engineering uniform construction code receipt processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the engineering uniform construction code receipt processes:

The Uniform Construction Code (UCC) office enforces rules pertaining to construction codes adopted by the state. Their primary responsibility is to protect the health, safety and welfare of the citizens by reviewing construction permits to insure that building plans and specifications conform to the UCC as well as performing actual inspections to verify that construction is also in accordance with the UCC. There are four basic technical sub-codes for construction: building, electrical, fire protection and plumbing. Fees are collected in accordance with the City ordinance that is based on state statute. Permits are completed, reviewed and approved prior to the fees being collected. The UCC office has a folder for each property to maintain all permits for each property together. The department also has their own computer system for tracking and maintaining the permits. Reports are required to be filed with the State of New Jersey on a quarterly basis. Several clerks collect funds each day and prints out the daily report to verify the receipts to the transaction audit report. The completed FD-3 form is taken to central cashiering for posting and deposit.

Risk Assessment:

Inherent Risk - Moderate
Control Risk – Moderate

Control Strengths:

None.

Control Weaknesses & Recommendations:

None.

Police – Taxi Cab

Audit Area Overview:

As part of our procedures, we developed an understanding of the police taxi cab receipt processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

Outside Offices (Cont'd)

Police – Taxi Cab (cont'd)

Audit Area Overview (cont'd):

The following is a summary of observations related to the police taxi cab receipt processes:

The Taxi Cab Commission establishes and enforces safe standards for taxicabs licensed to operate in the City of Newark through registration and inspection. Money is collected for licenses, inspections and fines for violations. The cashier collects fees and fines in accordance with the city ordinance and issues a receipt. At least daily the cashier counts the drawer and compares it to the register tape. The cashier then prepares a FD-3 form and takes it to central cashing for posting and deposit.

Risk Assessment:

Inherent Risk - Moderate
Control Risk – Low

Control Strengths:

None.

Control Weaknesses & Recommendations:

None.

Finance – General Licenses

Audit Area Overview:

As part of our procedures, we developed an understanding of the general license receipt processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the general license receipt processes:

The general license office of finance collects various business licenses. The fees charged are set by City ordinance. Businesses fill out an application which can be obtained either online or in the general license office. Once this application is approved, it is entered into the computer system for tracking purposes. Once the fee is collected and the application is marked paid by central cashing, then the license is issued. This office does not physically collect any money, all applicants pay at central cashing.

Risk Assessment:

Inherent Risk - Moderate
Control Risk – Low

Outside Offices (Cont'd)

Finance – General Licenses (cont'd)

Control Strengths:

1. All general licenses are collected by central cashiering and not the department.

Control Weaknesses & Recommendations:

None.

Finance – Special Taxes

Audit Area Overview:

As part of our procedures, we developed an understanding of the special tax processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the special tax processes:

The special tax office of finance collects parking, hotel and payroll taxes. Tax forms can be obtained from the City's website to be printed and filled out by the taxpayer. Any business that has quarterly payroll greater than \$2,500 must file a payroll tax form with the City and remit payment. All businesses that charge for parking must pay a parking tax as well. A hotel tax is charged to anyone providing hotel services based on occupancy. The fees charged are set by City ordinance. The Customer Service Representative (CSR) receives the receipts and form and then verifies that the taxpayer has signed the form indicating that they certify it is a correct return. The CSR enters the information into computer system where the account activity of the taxpaying entity is tracked. Checks received by the special tax department are scanned (deposits directly to the bank) to the bank each day by the CSR and a report is generated with the total deposited for the day. The CSR prepares a FD-3 and takes it central cashiering for posting.

Risk Assessment:

Inherent Risk - Moderate
Control Risk – Low

Control Strengths:

1. The computer system tracks special tax activity by property.
2. There are procedures in place to verify the information submitted by the businesses as substantiation for the amounts paid.

Control Weaknesses & Recommendations:

None.

Outside Offices (Cont'd)

Child and Family Wellbeing

Audit Area Overview:

As part of our procedures, we developed an understanding of the child and family wellbeing receipts processes. We interviewed all appropriate individuals within the processes and prepared a worksheet documenting the processes and key controls in place. We also performed a walkthrough of the appropriate processes and performed certain tests of internal controls and compliance procedures deemed necessary to determine our risk assessments over the processes.

The following is a summary of observations related to the child and family wellbeing receipts processes:

The Department of Child and Family Well-being provides and advocates for comprehensive health care, social and environmental services for Newark citizens and other customers to ensure an optimal level of health and well-being. The department is broken into five divisions: environmental health, health planning, medical care services, social services and surveillance and prevention. The Environmental Health Division provides comprehensive delivery of inspection services, investigations and education programs to citizens and consumers in order to assure a healthful and protected environment. The Health Planning Division assists management in setting policy to develop the goals, objectives and parameters of Newark's medical, social and environmental health services to ensure access, quality and outcome-based care for Newark residents. The Medical Care Services Division promotes the health of Newark residents, particularly the vulnerable populations, by providing medical care services to Newark residents through a variety of medical practices. The Social Services Division provides quality services to Newark's children and senior citizens through new technology. This is done by collaborating with departments, by identifying resources for funding new and major and/or existing programs and by providing educational training for the staff and the community. The Surveillance and Prevention Division monitors disease trends and develops and maintains a public health system in an effort to improve the City of Newark's ability to address the health needs of residents and provide prevention and early intervention activities. The Division of Welfare provides temporary financial, medical, housing and emergency assistance for single individuals, childless couples and the indigent residents of Newark. The Health Director's Office provides general administrative and operational oversight to the department.

The department of child and family well-being is a full service clinic that provides medical and dental services. They collect money from patients and bill Medicaid for reimbursement. Charges for self-pay are based on a sliding fee scale and reimbursement billings to Medicaid and Medicare based on federal poverty guidelines and uninsured patients are evaluated and assessed charges based on their income. The cashier collects money for patient services and reimbursement checks from Medicaid. A hand written sheet is kept detailing each transaction of the day and at the end of the day the account clerk verifies that the register tapes match the funds collected. A cashier prepares a FD-3 and different account clerk checks the totals and takes the FD-3 form to central cashing for posting and on deposit.

Risk Assessment:

Inherent Risk - Moderate
Control Risk – Moderate

Control Strengths:

1. Cashier totals are verified by the account clerk at the end of each day.

Control Weaknesses & Recommendations:

None.

Performance Audit of the
City of Newark

CITY OF NEWARK'S RESPONSE

Department of Administration

920 Broad Street, Room 205
Newark, New Jersey 07102
Tel: 973-733-3780
Fax: 973-733-3769
Email: thomasm@ci.newark.nj.us

Michelle L. Thomas.
Acting Business Administrator

Mr. Joseph J. Hoffmann
Bowman & Company LLP
601 White Horse Road
Voorhees, NJ 08043-2493

Dear Mr. Hoffman:

The City of Newark would like to thank you and your staff for your time and efforts in the completion of the Performance Audit of the City of Newark as a result of our receipt of Special Municipal Aid. We appreciated your attention to detail in spite of the difficult task which your firm had undertaken. The sheer size of the City's operating budget, organizational structure, number of employees, tremendous volume of transactions, and the complexity of our organization was a challenge that we understand and appreciate.

A number of your comments are also mentioned in our annual audit and we have a detailed plan in place to address many of those issues which you also reviewed as part of this engagement and we will not duplicate those responses in the attached document. We have chosen those items which we consider to be the most material to include in our response. We have taken all of your recommendations seriously and will continue to address other issues raised in this Performance Audit.

There are a number of items with which we are in agreement and we have already begun to implement your suggestions. We thank you for bringing those items to our attention. Additionally, there are some issues with which we have agreed to disagree and we will include those explanations in our response. Overall, we have found this experience to be rewarding to the City since we welcome transparency and recommendations designed to help us reach our goal of setting a national standard for urban transformation.

Sincerely,



Michelle L. Thomas
Acting Business Administrator

CITY OF NEWARK RESPONSE TO PERFORMANCE AUDIT

The City will organize its response by major category and topic.

COST SAVINGS OPPORTUNITIES AND EFFICIENCIES:

Auditor's Comment:

Numerous different insurance companies are being used for various types of health insurance coverage. A review should be made to determine if combining coverage under one or a few companies would be more cost effective.

Response:

The City has been working diligently to consolidate some of its health insurance plans to achieve a cost savings while also providing improved medical benefits to our employee population. We have engaged our insurance broker to work on our behalf to achieve these savings and, as a result, in June of this year we moved all of our employees on our traditional health care plan to a consolidated plan that significantly improved the benefits for our employees while also achieving a \$4.5 million savings for the City. In July, 2008, a similar action was taken for retirees. It is expected that those employees covered by HMO's will be combined in January, 2010.

Auditor's Comment:

Consideration should be given in to using approved on-line vendors to sell assets instead of normal public auctions.

Response:

The City is in the process of enacting legislation to utilize two different on-line vendors.

Auditor's Comment:

All of the union contracts contain a clause that requires that any change in health benefit coverage be of "better or equal to the existing coverage". The City should consider negotiating this clause out of future contracts in order to give the City more flexibility and opportunity to reduce costs.

Response:

The City has been aggressive in its union negotiations and most of the employees contribute to health benefit costs. The City will continue to negotiate additional health benefit savings with its unions.

Auditor's Comment:

There are forty-eight City employees who are provided vehicles. These employees are assessed imputed income for their personal use of the vehicle. The City should perform a cost study to determine the need for these vehicles.

Response:

The City has been reviewing the need for need for vehicles and in March, 2009 reassigned approximately 25 of these vehicles so they are no longer assigned to employees for take-home use.

Auditor's Comment:

Two contracts for \$400,000 each were awarded for accounting services. If these services were for other than non-recurring, the City should determine if in-house accounting personnel would be more cost effective.

Response:

These specific contracts are being used to provide the Finance Department with additional resources to address existing findings in the City's annual audit and implement the Corrective Action Plan. Some of this assistance will be through the implementation of additional components of its existing financial software, the preparation of policy and procedure manuals, and performing standard tasks to allow existing staff to focus on necessary improvements to process and procedures.

Auditor's Comment:

The City has two helicopters and one helicopter pilot. Consider the necessity of this and the possibility that the County may already provide helicopter services to the City in cases of emergency.

Response:

These helicopters were purchased used through Homeland Security Funding after intelligence surfaced that the City of Newark was targeted by terrorists after 9/11/01. A long list of nationally recognized and critical infrastructures has been identified throughout the City as possible targets of terrorist attacks. Essex County does not have a helicopter to assist the City.

Auditor's Comment:

Both water and sewer are billed monthly. Quarterly billings would save a significant amount of administrative costs. An analysis should be made of the cost savings compared to the loss of interest earnings as well as the cash requirement needed to pay expenses.

Response:

The change to monthly billing was made in 1995 for commercial and industrial accounts and in 1999 for residential accounts. The primary reason for the change was to improve cash flow. For example, in 2008, the total budget for the Sewer Utility was \$56,965,759 with the appropriation for sewerage treatment to Passaic Valley Sewerage Authority within that budget equaling \$43,448,652 or 76% of the total budget. This payment to PVSC is due quarterly on 2/1, 4/1, 7/1, and 10/1. There is a similar issue in the Water Utility with approximately 28% of its budget due to North Jersey Water District Supply with mandatory quarterly payments. In addition to the above mentioned reasons, monthly billing creates a more predictable bill for our customers especially those on fixed income. It also alerts customers of possible leaks and waste of water by identifying spikes in consumption monthly as opposed to quarterly.

STATUTORY AND REGULATORY TESTING

Receipt Findings Response:

The City of Newark collects annually over \$750 million of receipts annually consisting of hundreds of thousands of entries. The City will continue to endeavor to ensure all supporting documentation is accurate.

Tax Abatement

Auditor's Comments:

Long term tax abatements under Chapter 24 should be charged a 2% administrative fee per the ordinance Section 10:24-7 part a, however, individual resolutions are overriding the ordinance and some abated properties are being charged 1% or 2 and ½ % administrative fee. Resolutions cannot override municipal ordinances.

Response:

The ordinance section 10:24-7 applies to long term abatements granted by ordinance under NJSA 40A:20-1 et seq. However, it does not apply to HMFA tax abatements which are approved by resolution.

Auditor's Comments:

Certain long term abatements under chapter 24 are required to submit financial statements within 90 days of the end of their fiscal year per the ordinance section 10:24-7 part b; however, most financials are not filed timely.

Response:

Staff members were added to the abatement unit or returned from leave of absence and additional letters seeking the financial statements were mailed to entities during 2009. As a result the following occurred:

Six (6) of the nine (9) commercial tax abatement properties are in compliance through 2007 and five are compliant through 2008.

Forty-nine (49) of the fifty-nine (59) limited dividend projects are in compliance up to 2007 financial statements and thirty-three (33) of the fifty-nine (59) are in compliance through 2008 financial statements.

Long term tax abatements- Thirty-two (32) of the thirty-nine (39) projects are in compliance up to 2007 and twenty-nine (29) of the thirty-nine (39) are in compliance with submission of annual financial statements for 2008. The majority of projects submitted their statements by May 22, 2009.

Delinquency notices were sent to entities not in compliance on June 15, 2009 with a second notice mailed on August 31, 2009 with a recommendation to the Law Department to rescind the tax abatement because of non-compliance.

The City implemented a new revenue collection system during 2008 which included tax abatements some of the comments were a result of ongoing implementation of that system and have been corrected.

Disbursement Findings

Auditor's Comment:

The same vendor is listed several times in the computer system.

Response:

Accounts Payable in concert with the Purchasing Division will execute a review and consolidation of the vendor master table.

Auditor's Comment:

Social Security numbers are listed on support attached to some purchase orders...

Response:

The City will ensure that social security numbers are not listed on purchase order support.

For the other comments regarding the necessity of certain disbursements, all of these disbursements occurred prior to the City's execution of the Memorandum of Understanding with the State for Special Municipal Aid. The City will ensure all eligible

vendors receive 1099 forms and have made corrections within the instructions to staff and system.

Ethics Disclosure Findings:

Auditor's Comment:

Fifteen employees and/or officials did not file Annual Ethics Disclosure Forms for 2007 and twenty-three employees and/or officials did not file these forms for 2008

Response:

The large majority of individuals not filing these forms are not employees, but members of associated organizations. The City will institute new procedures to ensure that these forms are either received from the required individuals or the City will report them to Local Finance Board for failure to file these required forms and they will be subject to fines.

Auditor's Comment:

It appears that the City made payments to five entities that were listed on the Annual Ethics Disclosure Forms as sources of income.

Response:

The City will refer each of these payments to the City's Inspector General for his review.

Professional Service Contract Findings:

Auditor's Comment:

It appears that animal control services were awarded as a professional service. We feel that this service does not meet the required criteria of a professional contract.

Response:

The Contract and Legislation section of the Law Department reviews all contracts submitted to Municipal Council and the attorneys are familiar with the statutory requirements of Local Public Contracts Law. Because the definition of "professional services" is not limited to specific professions, but is also based upon "specialized instruction and study", there is often considerable discussion and research that determines the ultimate decision to award as a professional service.

The City will review in more detail the remaining comments under this section and will take additional steps to ensure all business disclosure statements are completed in full. In terms of certifications of funds, the City will hold seminars for all contracting employees

to ensure they understand these requirements. However, the overall purpose of the certification of funds is to ensure there are legally, budgeted funds available. The City's financial system does an automatic check of budget availability prior to the issuance of any purchase order. Therefore, no payment can be made without this budget check occurring within the system.

Bid, Change Order, and Other Contract Findings

Auditor's Comment

There is no documented evidence that a capital budget was adopted.

Response:

The City did not adopt a capital budget in 2008. The City will ensure that this does not happen again. During this period, a review of all existing capital projects was underway in order to determine which projects could be cancelled or re-appropriated.

Auditor's Comment:

A contract was awarded to provide meals for the elderly at a cost of \$117,264.95. The contract was awarded in 2006 by emergency resolution. The vendor was paid \$287,870.50 during 2008 under the same emergency contract.

Response:

During 2006, the contract to provide meals to elderly was awarded to another vendor. However, the awarded vendor could not perform to specifications during the first month of the contract; therefore, the contract was awarded to the second lowest bidder as an emergency contract. In February, 2007, a two year contract was awarded to this same vendor for the same purpose and the payments indicated in the auditor's comments were paid under the newly awarded contract during 2008 and not under the prior emergency contract.

Payroll Distribution Findings

Auditor's Comment:

Five hundred and ten employees did not attend the payroll distribution audit. Two hundred and eighty-nine of these individuals are fire department employees.

Response:

An audit of 100% of the City's employees was a difficult task for the auditors to perform given the time restraints, various shifts, and numerous work locations. The auditors

required each employee to be present and show two different types of identification. We have reviewed the list of the five hundred and ten employees and have determined the following:

- 157 Fire Department employees were not scheduled to work on day of audit due to shift schedule
 - 100 Employees absent due to vacation or sick
 - 85 Fire Department employee on duty and working in various locations
 - 17 Terminated or resigned
 - 6 Retired
 - 13 Leaves of Absence
 - 7 Military Leave
 - 5 Suspended
 - 3 Workers Compensation or Injured
 - 1 Deceased
 - 1 Jury Duty
- 395

In order to determine the above listed explanations for missing the payroll audits, the City reviewed various attendance records including printouts from hand scan system, roll call sheets from Police and Fire Departments, and the Human Resources computer system. The City's Internal Audit section will continue this audit to identify all of the employees who did not attend the payroll audit.

Auditor's Comment:

The verification of employee's social security numbers to the data base at the Federal Social Security Administration revealed that fourteen social security numbers did not match to the corresponding name, of which one did not attend the payroll distribution.

Response:

The City will verify social security numbers against the Federal data base on an annual basis and at the time of any personnel action for an individual employee. We will notify our employees of any discrepancies. During our review of this information, we determined that four (4) were instances of transposed numbers and we have made those corrections. An additional three (3) employees had legal name changes, but did not make the changes in both databases.

Grant Accounting Findings

Response:

The City is in the process of implementing in total the Grants Management module of its financial software package that will facilitate management of the full grant life cycle from application to close out for each individual grant. This will allow an automated,

technology-driven solution to the management of grant resources. The system is being customized to meet the needs of all City grants from federal, state, and private funding sources. This system is being tailored to facilitate workflow through automatic notifications to staff responsible for execution of specific steps necessary to move grants through all stages of the grants life cycle. This will give the City a necessary tool to be able to manage the grant process for application to close out of the grants. In addition, the Grants Management module will facilitate regular reporting on the status of grants that will be more efficient and effective than current methods and less dependent on individual employee output.

The City is using its new revenue collection system to report detailed revenue to the general ledger; however, grant revenue is not currently reported automatically in detail. We are making modifications to our systems to allow that information to be automatically generated which will allow for quicker identification and recording against the detailed receivables.

The City is also working to centralize many of the currently decentralized grant management functions via the Office of Partnerships and Grant Management. Through centralization, the Office of Partnerships and Grants Management will manage interdepartmental coordination of grant resource allocation as well as provide oversight for all stages of the grant life cycle.

INTERNAL CONTROL REVIEW AND ASSESSMENT

Cash and Investments

Auditor's Comment:

Bank reconciliations should be reviewed by an individual other than someone in Treasury.

Response:

The City will have the Comptroller review all bank reconciliations.

Receipts

Auditor's Comment:

The central cashiering supervisor should sign the proof sheet as documentation of verifying the proof sheet.

Response:

Currently the cashiering supervisor signs the adding machine tape; however, we have changed the procedure so she now signs the proof sheet.

Expenditures

Auditor's Comment:

There is no procedure to verify that all vendors paid are not on the suspended and debarred contractor's list.

Response:

The City will institute procedures to ensure that all potential contractors are reviewed against the State and Federal websites listing suspended and debarred contractors.

Supplies

Response:

The City will research various computer systems to acquire an inventory system which will be useful for all City departments. Presently, several different departments have some type of inventory control system; however, the City would prefer a uniform system.

Disaster Recovery and Contingency Planning

Auditor's Comment:

A disaster recovery plan should be developed, maintained and tested.

Response:

The City will soon open its Emergency Operations Center which will provide disaster recovery services in addition to the current off site storage facility.

Receipt Findings- Page 12

1. *“Two items tested from the municipal court manual receipts were not able to be verified since the supporting documentation was not available.”*

The manual bail receipts are provided to the police department so that they can properly record receipt of bail. The Court’s Finance Division keeps a log of the specific officers who have been given manual receipts. The two receipts in question were part of a pack of receipts signed out to two Newark Police Precincts but were never utilized. The Court will implement additional procedures for follow-up with the police departments to improve tracking of the manual receipts.

2. *“All fourteen of the municipal court bails tested did not agree as to the allocation of cash and checks on the respective deposit slips.”*

Each cashier counts out his/her totals at the end of each day for both the bail and fine accounts. The totals for cash and for checks are attached to each individual cashier’s journal summary. Each cashier’s journals are reviewed and the totals are confirmed by a supervising cashier. The supervising cashier totals all cashiers receipts and drafts the deposit slip for the bank. Discrepancies such as data entering the incorrect form of payment are extremely rare and are always discovered and rectified through this review process.

One reason for a difference in allocation is that the Bail Cashbook lists money orders as cash, however, the bank deposit slip accounts for them as checks. The Court will implement additional procedures wherein the supervising cashier will reconcile the check/cash/money order allocation between each cashier’s journal and the bank deposit slip making any needed notations to the ledger to account for differences in allocation.

Other Items Noted- Page 21

“The review of the monthly management reports of the City Court revealed that there are 14,415 pending traffic tickets that are over 120 days, there are 579,976 traffic tickets assigned and not issued that are over 181 days, there are 4,935 cases that are eligible for failure to appear notices, and there are 14,703 pending complaints that are over 121 days old.”

- 14,415 pending traffic tickets over 120 days

The Court was not advised of the particular month reviewed by the auditors for this statistic. However, by reviewing several monthly management reports it is clear that this figure refers to the total amount of traffic tickets over 120 days, the majority of which are parking tickets. The Court receives over 20,000 parking tickets each month, making backlog in this area inevitable. The Court reviews case management reports every month and adjudicates and or disposes older cases as appropriate. For the month of July 2009,

the number of total traffic tickets over 120 days has been reduced to 11,705 a reduction of almost 20% as compared to the month reviewed by the auditors.

- 579,976 assigned but not issued

These are tickets that have been signed out by police officers, but not issued. These tickets date back to 1990. The Court is working with the police agencies to recall all non-issued tickets. The Court is also in contact with the Administrative Office of the Courts (AOC) to administratively delete tickets from this report that police agencies are unable to locate due to passage of time. The Court has also implemented a more strictly controlled sign-out procedure, which requires officers to return unused ticket books before receiving an additional inventory of ticket books.

- 4,935 eligible for failure to appear notices

The Court orders Failure to Appear (FTA) notices on a weekly basis pursuant to AOC guidelines for parking, traffic and now criminal matters.

- 14,703 pending complaints over 121 days old

The Court's overall backlog has been reduced by 30% since July of 2008. The Court will continue to reduce its backlog by addressing the older caseload in both traffic and criminal and by ensuring current cases move efficiently.

Control Weaknesses and Recommendations for the Newark Municipal Court- Page 56

1. *"The deposit total is verified, however, the allocation of cash and check amounts are not tied in."*

The Court will implement additional procedures wherein the supervising cashier will reconcile the check/cash allocation between each cashier's journal and the bank deposit slip. The supervising cashier shall make any needed notations to the ledger to account for differences in allocation.

2. *"Cashiers can write and utilize the signature plate to prepare a check. There are no controls over the signature plate."*

Currently, the cashiers can both write the checks and utilize the signature plate. The Court will implement additional controls wherein only designated supervisors will have access to the signature plate to complete check processing, ensuring that those who write the checks are separate from those who sign them.

It must be noted that the Court has in place several controls with regard to check writing to ensure that every check is accounted for and is in proper order. When a check is written, the check information is entered into a log book and initialed by the issuing

cashier. For refunds, the customer must also sign the log book. All checks, including checks that have been voided, are reflected in the log. The Court's Finance Division monitors the check log book at a minimum of twice a week to 1) ensure that the checks written are accounted for in chronological order, 2) verify the date, check number, and amount, and 3) verify the cashier's initials in the log. If there were to be a discrepancy, a check out of order or missing, for example, the violations manager would be contacted immediately to resolve the issue. These controls have been successful in preventing any improper use of the Court's checks.

3. *"Checks can be issued without a review process."*

The Court's check writing process is reviewed daily by the supervising cashier and bi-weekly by the Court's Finance Division. The Court will implement an additional process for check writing based on the auditors' recommendations. Cashiers will now be required to bring a screen print from the ATS/ACS system to a supervisor for approval. The screen print shall indicate the amount of the check and the payee. Once the supervisor reviews the screen print and the check, the supervisor will initial the screen print and run the check through the signature plate thereby allowing for the check to be distributed. The screen prints will be placed with the check log and given to the finance department as part of the reconciliation process.