

**SCOPE OF WORK FOR
PERFORMING INTERNAL CONTROL AND
STATUTORY/REGULATORY COMPLIANCE AUDITS
FOR RECIPIENTS OF SPECIAL MUNICIPAL AID**

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

SCOPE OF WORK – SPECIAL MUNICIPAL AID AUDITS

The scope of work includes completion of the services and deliverables listed below.

- 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

Review of Special Municipal Aid Municipalities

- 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) invoice dates are not prior to delivery date; and,
 - xi. if written procedural documentation regarding the procurement function (i.e., administrative code, purchasing manual) exists
 - b. general fiscal operations, including but not limited to whether:
 - i. controls within the municipality's accounting functions: budgeting, cash receipts, accounts payable, encumbrance, general ledger maintenance, and if they are adequate, consistently applied, and in compliance with state law, regulations, and local ordinances;
 - ii. banking and investment practices are consistent with state law;
 - iii. investment policies and procedures are established, followed, and effective;
 - iv. grant accounting is compliant with contracts, draw-down and reimbursement procedures, and timeliness;
 - v. capital ordinances, tax abatements, and trust funds are maintained in compliance with state law, regulations, and local ordinances; and,
 - vi. appropriate financial staff are in compliance with SAS 112.
 - c. payroll/human resources, including but not be limited to whether:
 - i. there exist controls over manual and non-manual payroll payments;
 - ii. payments are made in accordance with contract terms;
 - iii. position control reconciles with payroll and budget information;
 - iv. verification that timesheets exist and tie into payroll records;
 - v. verification that salaries were properly authorized and paid in accordance with contract or ordinance; and,
 - vi. employee benefits are authorized by contract, ordinance, or resolution as appropriate, and received by employees pursuant to authorization (i.e., test to ensure that only active employees receive benefits).
 - d. information technology operations: the adequacy of infrastructure, administrative support and fiscal applications, disaster management, and information security practices;
 - e. risk management: if adequate insurance coverage is provided at the least cost to the municipality; if self-insured, review of controls and oversight procedures; and; if risk management policies are in place and training provided for staff as appropriate; if procedures are established for periodic review of risk management practices and providers; if risk management contracts were awarded pursuant to law; 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.

Review of Special Municipal Aid Municipalities

3. Statutory and regulatory compliance review of all (100 percent) professional services, competitive contacting, 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. 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 Fiscal Years 2006 and 2007; and,
 5. analysis of payroll data to identify employees whose base salary increased by greater than \$7,500 from Fiscal Year 2006 to 2007.
- 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. 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 and 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.
- H. The contractor must provide a separate bound report for each municipality. The reports shall include the following:
1. 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);

Review of Special Municipal Aid Municipalities

4. a section describing the findings of statutory and regulator 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 contractors 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.
- I. The contractor must conduct all reviews in accordance with the GAO "Yellow Book" and (AICPA) *Statements on Standards for Accounting and Review Services* or any other industry standards that may apply.