

**Office of the State Auditor**

**Report on Compliance and Internal Control  
Related to Our Audit of the Financial Statements of the  
State of New Jersey Casino Control Fund**

**For the Fiscal Year Ended  
June 30, 1997**

**Report on Compliance and Internal Control  
Related to Our Audit of the Financial Statements of the  
State of New Jersey Casino Control Fund**

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The Honorable Christine Todd Whitman  
Governor of New Jersey

The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the State of New Jersey Casino Control Fund as of and for the year ended June 30, 1997, and have issued our report thereon dated April 6, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Casino Control Fund's compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a

direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we did note certain immaterial instances of noncompliance that we have discussed in detail in the findings and recommendations section of this report.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Casino Control Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design and operation of the internal control over financial reporting that, in our judgment, could adversely affect the Casino Control Fund's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This matter is discussed in detail in the findings and recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended for the information of management. However, this report is a matter of public record, and its distribution is not limited.

Richard L. Fair  
State Auditor  
April 6, 1998

INTERNAL CONTROL AND COMPLIANCE  
FINDINGS AND RECOMMENDATIONS  
RELATED TO OUR AUDIT OF THE FINANCIAL STATEMENTS  
OF THE STATE NEW JERSEY  
CASINO CONTROL FUND

**SUMMARY**

We have audited the financial statements of the State of New Jersey Casino Control Fund as of and for the year ended June 30, 1997, and have issued our report thereon dated April 6, 1998. Our audit included a review of the internal control over financial reporting and compliance to laws, regulations and contracts. During our tests of the internal control over financial reporting, we noted a reportable condition that should be addressed by management as well as certain immaterial instances of noncompliance.

**Payroll**

Time keeping and payroll processing functions are not properly segregated from the check distribution function at both the Casino Control Commission and the Division of Gaming Enforcement. In accordance with established practices, individuals who prepare payroll proofs and maintain employee time records also have the responsibility of distributing paychecks.

**We recommend** the Casino Control Commission and the Division of Gaming Enforcement strengthen their internal controls governing payroll processing by properly segregating the employee timekeeping and payroll proof functions from the check distribution function.

**Auditee's Response**

The Commission has strengthened its internal controls governing payroll processing by properly segregating the employee time keeping and payroll functions, from the payroll check distribution function.

The Department of Law and Public Safety and the Division of Gaming Enforcement (DGE) agree with the audit finding regarding the segregation of payroll processing functions from the check distribution function. However, the DGE lacks the personnel resources to separate those activities from the one person who oversees the TALR System, updates the biweekly payroll and distributes checks. As a compensating control, the DGE will implement a procedure whereby the Administrative Officer will review the payroll register each pay period and certify that it is accurate. The Personnel Officer currently advises the Administrative Officer, in writing of all new hires, resignations, retirements and leaves of absence. These documents will serve as independent source documents in the review of the biweekly payroll register.

During fiscal year 1997, the Casino Control Commission's unclassified employees were awarded a three percent merit increase retroactive to July 1, 1996. NJAC 4A:3-4.20 limits eligibility for retroactive payments to "employees who remain on a state payroll on the date of the retroactive payment and employees who retire or die during the period of retroactive application." The commission, however, processed payments totaling \$1,200 to four employees who left state service prior to the retroactive payment date and for reasons other than retirement or death. In addition, during 1996 and 1997, the commission credited the night shift inspectors each with four extra hours of administrative leave time at an approximate cost of \$3,700 per year.

**We recommend** the Casino Control Commission comply with NJAC Title 4A when issuing retroactive payments or crediting administrative leave time.

### **Auditee's Response**

In compliance with N.J.A.C. Title 4A, the Commission will credit all of its employees with the appropriate amount of Administrative Leave Time. However, an annual two or four hour adjustment for the ten hour shift inspection staff is under consideration.

The Commission acknowledges that certain ineligible former employees received retroactive salary payments. These individuals have been contacted via mail to request the reimbursement of these monies. It is the intention of the Commission to pursue these overpayments through its collection process.

Subsequent to the retroactive salary payments reviewed as part of this audit period, the Commission's unclassified staff was awarded an additional retroactive merit increase. In administering this merit increase, the Commission fully complied with N.J.A.C. 4A:3-4.20 in limiting the eligibility for the retroactive payments.