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**Department of Environmental Protection
Natural and Historical Resources
Selected Programs**

July 1, 1997 to May 21, 1999

**Richard L. Fair
State Auditor**

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Enclosed is our report on the audit of the Department of Environmental Protection, Natural and Historical Resources - Selected Programs for the period July 1, 1997 to May 21, 1999.

If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair
State Auditor
August 6, 1999

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**Department of Environmental Protection
Natural and Historical Resources
Selected Programs**

Scope

We have completed an audit of the selected programs of the Department of Environmental Protection, Natural and Historic Resources for the period July 1, 1997 to May 21, 1999. Our audit included the financial activities accounted for in the state's General Fund for the Bureau of Parks, Bureau of Forestry, Division of Fish, Game and Wildlife, Office of Marina Operations, Office of Shellfish Management, and Natural Resource Engineering.

The prime responsibilities of these programs are to provide opportunities for recreation and enjoyment of natural and historic resources, and promote a healthy and sustainable ecosystem.

Annual expenditures and revenues for the selected programs in our scope were approximately \$87 million and \$39 million, respectively. Major sources of revenue were hunters and anglers licenses, park management fees and local contributions for shore protection projects.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample populations were stratified and large dollar transactions were sampled. Other transactions were randomly and judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the agency and walked through the system to determine if the corrective action was effective.

Conclusions

We found that financial transactions were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with procedures and regulations meriting management attention.

We also found that the agency has not resolved four of the issues noted in our prior report, dated January 25, 1996, related to land assets, procurement procedures, clothing allowance and Monmouth battlefield leases. These issues have been updated and restated in this report.

Land and Buildings

DEP's records for land and building assets need to be reconciled with the corresponding records maintained by the Department of the Treasury.

DEP internal records for land assets are not adequate. The responsibility for maintaining a system was transferred from the Office of Central Services & Property Management to the Office of Green Acres during January 1998. The termination of the system maintained by the Office of Central Services & Property Management contributed to the inadequacy of the records. We obtained from the Department of the Treasury, Office of Real Property Management (ORPM) a listing of land and buildings managed by DEP, as of January 11, 1999, and noted the following conditions.

Per DEP's land records, the department owns 552,217 acres versus 566,664 acres according to the land records maintained by the Department of the Treasury, a difference of 14,447 acres.

DEP internal records for building assets are not in agreement with the corresponding records maintained by the Department of the Treasury. Our comparison of the two records showed 2127 buildings according to DEP's listing versus 2047 buildings attributed to DEP according to the Department of the Treasury's listing.

Since 1993, DEP has advised the Department of the Treasury of their concern regarding the disparity between their land and buildings records and those maintained by ORPM. We also noted that the two sets of records have incompatible file formats and incomplete records, complicating the task of reconciliation. The lack of accuracy or completeness of these records impedes analysis that might be undertaken by management.

Recommendation

We recommend that DEP obtain a complete listing of land and buildings from the Department of the Treasury and review it for accuracy.

Auditee's Response

It must be noted that Treasury maintains two building inventory systems. The most current one, maintained by the Division of Property Management & Construction, Bureau of Real Property Disposal & Acquisitions, reconciles with our system. In fact, the information is identical. Accordingly, the Department is very comfortable with the accuracy of the current Treasury system. We understand that an effort to reconcile the two Treasury systems is being undertaken by the Office of Management and Budget's, Financial Reporting Section.

As to the land inventory systems, the Department has made many attempts to work with Treasury to develop a new land inventory system that would collect all relevant data. Unfortunately, those efforts have not been fruitful, mainly due to the cost involved and the labor intensive effort required in collecting and verifying the necessary information. However, we have recently been advised that Treasury is implementing a new land inventory system, and the Department plans to work with them to enhance the data collection capability of that system.

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Leases at Wildlife Management Areas

The Division of Fish, Game and Wildlife is responsible for managing and leasing out state land designated for farming, marinas, cottage lands, etc. The tenant is required to send in monthly/yearly payments or, in the case of the agricultural leases, a percentage of crops and/or other considerations. The lessee is also required to secure and maintain a comprehensive general liability insurance policy, naming the state as co-insured. Our review of these leases indicated that the department has no record that these leases have been renewed. Tenants continued as holdover tenancy subject to the same terms and conditions of the last fully executed lease dated over seven years. Further review indicated that 42 of 64 lessees did not have current liability insurance. We also noted a lack of

The Division of Fish, Game and Wildlife should update their land leases for state property to reflect fair rental value.

documentation in monitoring compliance with the agriculture lease agreements.

Recommendation

We recommend that the division replace the expired leases with new leases that reflect current rental value for the leased property and that the division follow up on a timely basis for lessee liability insurance. We also recommend documenting evidence of monitoring agriculture lease agreements.

Auditee's Response

The Department concurs with the recommendation to update our procedures relative to these leasing activities. Accordingly, the Division of Fish, Game and Wildlife is initiating a system whereby expired leases will be renewed on an annual basis through the execution of a one-page renewal document. This will provide the necessary documentation that the terms of the original agreement are still in effect.

Relative to the issue of lessee liability insurance coverage, the Division contacted the delinquent lessees, via letters and follow-up phone calls. This action resulted in the submission of necessary insurance documentation for all current leases.

In addition, a new system will be initiated to document annual crop set-asides in-lieu-of payment for agricultural special use permits. At the end of each growing season, when the fields of each farmer are visited by Division staff, a sign-off sheet will be executed by the appropriate staff person indicating satisfactory compliance with the terms of the special use permit. This document will then become part of the official record.

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Bureau of Coastal Engineering Deposits

The Bureau of Coastal Engineering should ensure timely deposit of checks.

The Bureau of Coastal Engineering, located in Toms River, receives checks from municipalities and towns for their share of capital projects. The checks are then sent to the Office of Trust Fund Management of DEP in Trenton for deposit and processing through the state accounting system. During our audit period, the bureau received \$2.2 million. However, the bureau records did not indicate that the funds were deposited in accordance with Treasury Circular Letter 94-24 which requires agencies to ensure that all moneys are deposited on the same day as received. The bureau failed to maintain records documenting the dates checks were received. Untimely deposits may result in potential lost interest for the state.

Recommendation

We recommend that the bureau ensure that deposits are made in accordance with the requirement of Treasury Circular Letter 94-24. One way of achieving this is by electronic transfer of funds, with a payment notice mailed by the payor to the Toms River office.

Auditee's Response

The Bureau will maintain a check tracking log to document the receipt and subsequent deposit history of all remittances received. This new procedure will help ensure compliance with Treasury Circular Letter 94-24, and reduce any possibility of potential lost interest.

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Procurement Procedures

The Department of Environmental Protection should follow the procurement procedures of the Department of Treasury's Purchase Bureau when purchasing goods and services.

In our prior audit report dated January 25, 1996, we noted that the Department of Environmental Protection does not always follow the procurement procedures of the Department of the Treasury's Purchase Bureau when engaging in the purchase of goods and services from non-contract vendors. Our current audit indicates that DEP has not resolved this issue.

The Department of the Treasury Circular Letter 98-18-DPP(PC-23-H) requires state agencies to purchase goods and services in accordance with various requirements depending upon the source and price of the item to be obtained. During our review of Bureau of Parks expenditure transactions, we noted that the bureau ordered five different sets of signs from a non-contract vendor to be printed for use at the various state parks. These signs were paid for on five separate invoices totaling \$46,220. However, a closer review of the purchase orders for these transactions indicated they were made at the same time. Therefore, the five payments amount to a single order with five separate components. Because the order exceeded the Direct Purchase Authorization ceiling of \$10,500, the Bureau of Parks should have submitted this transaction to be bid out by the Purchase Bureau in order to obtain the best possible price for the product. We further noted that the Bureau of Parks purchased ten boats for \$9,350 and placed another order for boat accessories to the same non-contract vendor for \$1,914 on the same date. The two orders actually amounted to a single purchase of \$11,246 that should have been submitted to the Purchase Bureau to bid out. At the Division of Fish, Game and Wildlife, two purchase orders were issued the same date to a vendor for the design and printing of a regulatory digest in the amount of \$3,653. The splitting of orders to smaller amounts required only telephone quotations rather than the proper sealed written bids called for by the procurement circular letter. As a result, in all these cases, it is possible that the department did not obtain the best possible prices for the items acquired.

Recommendation

We recommend that the Department of Environmental Protection comply with the provisions of Treasury Circular Letter 98-18-DPP when purchasing goods and services.

Auditee's Response

Both the Division of Parks and Forestry, and the Division of Fish, Game and Wildlife are cognizant of the provisions of Treasury Circular Letter 98-18 and that a conscious circumvention of procurement procedures is strictly prohibited. Nevertheless, the State Park Service is currently working with the State's Purchase Bureau to have an annual State contract awarded for the purchase of signs which will continue to be required on an annual basis. In addition, proper use of telephone quotations and sealed written bids will be strictly adhered to, based on established procurement thresholds.

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Purchasing of Uniforms

DEP should discontinue its practice of purchasing uniform items beyond the union contract requirements.

In our prior audit, we noted that DEP purchased replacement uniforms for rangers and conservation officers even though these employees already received a clothing allowance that was meant to pay for the cost of such items. While DEP did concur with the recommendation that this practice of purchasing uniform items beyond union contract requirements should discontinue, the practice of paying for these uniforms had continued at a cost to the state of approximately \$36,000 annually. The current four-year union contract provides each ranger and conservation officer with an average clothing allowance of \$1,435 annually. The state is responsible for supplying the initial uniform issued to new employees. The clothing allowance is for uniform replacement and maintenance.

Recommendation

We recommend that the department discontinue its practice of purchasing uniform items beyond the union contract requirements.

Auditee's Response

The Division of Fish, Game and Wildlife has been

seeking guidance from our Office of Labor Relations, as well as from the Attorney General's Office, relative to the discontinuance of the "de-facto" practice of issuing replacement uniforms. No clear cut policy decision has been issued to date. The Division points out, however, that the majority of the costs incurred (64%) were for field and safety items, rather than basic uniform items.

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Monmouth Battlefield Leases

The Division of Parks and Forestry should monitor all agricultural leases at Monmouth Battlefield.

In our prior audit report dated January 25, 1996, we noted that the Division of Parks and Forestry was not maintaining current lease agreements for all of the agricultural leases at Monmouth Battlefield. Our current audit indicated that four of the five agricultural leases have not been updated since their expirations in 1974, 1979, and 1989. A holdover clause exercised by both parties allows the tenant to farm the property at the previous terms and conditions. Since the time of our prior audit report, the rents for the four properties have not been updated. Therefore, the rents being collected do not reflect the current market value and represent a possible loss of revenue for the state. The Division of Parks and Forestry has attempted since 1994 to implement new leases. However, the Division of Law has not yet approved the proposed leases as to form and content.

Recommendation

We recommend that the Division of Parks and Forestry continue its efforts to implement timely approved lease agreements.

Auditee's Response

The Division of Parks and Forestry, through Assistant Commissioner Hall's approved revisions to the Agricultural Lease document, will revise/update all farm leases administered by the State Park Service, including Monmouth Battlefield State Park.

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Fixed Assets

DEP should comply with the requirements of Treasury Circular Letter 91-32 regarding fixed assets.

Our current review of the DEP's fixed asset inventory indicates that the system was not current as required by Treasury Circular Letter 91-32. Twenty-nine exceptions were noted out of 136 items selected for testing at various locations within the Bureau of Parks, Bureau of Forestry and Division of Engineering and Construction, where items were either untagged or not posted to the system. This condition shows that the inventory, which is maintained by the Office of Central Services and Property Management, is not updated timely when new assets are purchased and when equipment is transferred or retired to surplus. This increases the opportunity for loss and theft.

Recommendation

We recommend that the department comply with Treasury Circular Letter 91-32. An equipment inventory system that is updated on a regular basis is necessary for accountability and proper stewardship of state property.

Auditee's Response

The Department disputes the conclusion that our fixed asset inventory was not current. It must be noted that Department of Environmental Protection employees are housed in a number of buildings located throughout the State, with vendor deliveries being made directly to the work location. The Central Services and Property Management unit relies on financial reports, payment data, etc. to identify new purchases, which are then appropriately tagged and posted to our inventory system, all within reasonable time limits. Regarding the noted exceptions, however, our staff is working to correct/resolve these issues.

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