

**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**

**Department of Law and Public Safety
Division of State Police**

July 1, 1994 to June 30, 1996

**Richard L. Fair
State Auditor**

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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

Enclosed is our report on the audit of the Department of Law and Public Safety, Division of State Police for the period July 1, 1994 to June 30, 1996.

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

Richard L. Fair
State Auditor
May 8, 1997

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Department of Law And Public Safety Division of State Police

Scope

We have completed an audit of the Department of Law and Public Safety, Division of State Police for the period July 1, 1994 to June 30, 1996. Our audit included financial activities accounted for in the state's General Fund.

Total expenditures of the division during the 24 month audit period were \$476 million. The prime responsibility of the Division of State Police is to provide statewide enforcement of the criminal, motor vehicle, marine, and alcoholic beverage control laws while directing the state's Emergency Management program. Revenues of the division totaled \$112 million during our audit period and the major components of revenue were reimbursements received from the various independent authorities within the state for security and patrol services rendered.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the division'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 division.

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 division personnel to obtain an understanding of the programs and the internal control structure.

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 analyzed. Other transactions were randomly selected.

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

Conclusions

We found that the financial transactions included in our testing were related to the division'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 laws and regulations meriting management's attention.

We also found that the division has resolved the significant issues noted in our prior report except for matters related to payroll, revenue, inventories, and fixed assets/equipment. These issues have been updated and restated in our current report.

Details of our findings and recommendations follow.

Revenues - Fees and Cost Recovery

Increased fees and provisions for the imposition of fines and penalties would enable the division to recover a greater portion of the cost associated with these revenues.

Fees collected by the State Police for private detective and firearm licenses totaled \$.5 million per fiscal year, while the payroll costs associated with these regulatory fees are \$1.2 million per fiscal year. Generally, user fees are assessed to cover costs associated with providing a specific service. Fees for these two licensing functions were last adjusted in 1971 and 1966, respectively.

Firearm license fees range from a \$2 permit to purchase a handgun to \$150 license for a wholesaler/manufacturer of firearms. Applicants file for these licenses at their municipal police departments or with the State Police if their town does not have a municipal police force. The division provides all municipalities with the manuals and applications and maintains the statewide database. The division also performs necessary investigations prior to the issuance of a license/permit for applications they receive. These fees have not been adjusted since 1966 and there is no provision for revenue sharing between the municipalities and the division for costs associated with this licensing activity.

The division has the responsibility of licensing all private detective agencies operating in New Jersey. This includes monitoring the private detectives' agencies and determining that they have remitted the correct fees, investigating complaints against private detective agencies and performing necessary background checks. The present fee structure has not been addressed since 1971 and current legislation is silent regarding the imposition of fines or interest for private detective firms submitting incorrect information. The division's resources are being utilized to collect fees, file reports and perform necessary background checks with few audits of private detective firms' payroll currently being conducted.

The division conducted an internal review of the two functions in 1991 and of the private detective fees in 1994. Although both reports concurred that the fees need to be increased, department management has not taken the necessary steps to initiate legislative action.

Recommendation

We recommend the division upgrade the current fee structure to bring fees in line with costs. Additionally, we recommend the division seek necessary legislative action to assess interest for inaccurate reporting by private detective firms and revenue sharing with municipalities to recover printing costs associated with firearms licensing.

1/4/2

Mess Hall Operation Economy and Efficiency

The division should review the operation of the dining facility and determine the current effect of its operation on the division's appropriations.

The State Police Headquarters Complex located in West Trenton includes a dining facility. This facility employed four individuals and served only cold fare, due to an unfilled cook position. Financial statements compiled by the division indicated that the facility generated a profit of approximately \$14,000 per year for the years 1994 to 1996. The financial records did not consider the cost of the direct labor or the overhead associated with the operation of the mess hall. Labor costs for the four employees totaled more than \$80,000 exclusive of any fringe benefits. Overhead costs associated with the building and indirect costs, including the enlisted officer whose job duties include oversight of the mess operation, were not determined. The facility is operating at a loss and does not represent an effective use of state resources.

Recommendation

We recommend the division increase revenues in the dining facility to recover costs of the operation.

Payroll Leave Records

Full implementation of TALRS for all state police personnel will eliminate the decentralization of leave records.

Payroll and related expenditures totaled \$370 million during our audit period. Our previous audit report noted the decentralization of leave records at the Troop Command and Station levels. Though 28 day maintenance time sheets are remitted to the Headquarter's Payroll Unit, tracking of the individual's leave balances remains the responsibility of the Troop or Station Commanders. Three of five Troop Commands do not maintain annual leave records at their level of authority resulting in a lack of independent verification of the records maintained at the Station level. There was no supervisory approval in 5 of 46 units (enlisted and civilian) and enlisted supervisors approved their own time records in 13 of 28 units. The division is in the process of installing TALRS, a software program designed for recording employee leave and attendance records. Use of this software should provide more control over leave time.

Recommendation

We recommend the division continue implementation of the TALRS system. Full implementation was expected in January 1997. We further recommend that all time records are properly approved by employees' supervisors.

1/4/2

**Payroll - Terminated
Employees' Leave Credits**

Terminal leave balances and supplemental compensation on retirement calculations should be reviewed for accuracy and compliance with Administrative Code requirements.

Enlisted personnel continued to accrue vacation leave credits during the period of time they were exhausting their vacation and terminal leave time. This division oversight was a violation of NJAC 4A:6-1.2(a)4 which states, "Vacation leave credits shall not accrue after an employee has resigned or retired although his or her name is being retained on the payroll until the exhaustion of vacation and other compensatory leave." This cost the state \$83,000 during the audit period.

The division's management was not permitting enlisted personnel the option of selecting a lump sum payout for earned but unused vacation credits. Instead, the division required its enlisted personnel to exhaust vacation credits prior to their official retirement date. NJAC 4A:6-1.2(g) states, "An employee who leaves state government service or service with a local jurisdiction shall be paid for unused earned vacation leave." This situation created a backlog of nine individuals who have been medically retired and, thus, cannot return to the division to exhaust earned but unused credits.

The division did not recoup the cost of negative leave balances from employees that separated from state service. Per NJAC 4A:6-1.5(a), "Employees in State service are liable for vacation and sick leave days taken in excess of their entitlement." Based upon a verbal directive attributed to the Attorney General's Office, the division sought to recover funds through the use of the Division of Taxation's Set Off of Individual Liability program (SOIL). This method of collection is an inefficient use of state resources, given the generally small balances owed and the costs associated with this form of recovery.

Recommendation

We recommend the division:

- C Comply with NJAC 4A:6-1.2(a)4 and discontinue the practice of accruing leave credits while exhausting previously earned leave time.
- C Develop a plan to alleviate the backlog of vacation leave credits for those medically retired enlisted individuals.
- C Seek to recover negative leave liabilities prior to employee separation

1/4/2

Inventory

Periodic physical inventories by groups independent of the warehouse function and adequate segregation of duties would reduce the risk of inventory losses going undetected.

Three previous audits reported internal control weaknesses over inventory, including the lack of segregation of duties within the warehousing function. One employee's responsibilities included the receipt, storage and distribution of inventory items, maintaining the perpetual inventory records, and conducting physical counts. Discrepancies noted during the physical count were adjusted on the perpetual inventory records without further review. No physical counts of inventory were made by parties independent of the warehousing function to ensure the accuracy of the records. Additionally, the previous audit and an internal security survey revealed weaknesses over the physical safeguarding of inventories which division management has not addressed. This increased the risk of inventory losses going undetected. The division estimated the total value of inventory under their control exceeds \$8 million.

Recommendation

We again recommend that the division adequately segregate the duties of the warehousing function and have independent periodic physical counts performed.

1/4/2

Inventories - Counterfeit Property

The State Police should formalize a policy regarding the disposition of counterfeit items thus protecting the State from potential liability claims.

Recommendation

The division had not developed a procedure to address the handling of seized counterfeit goods after the completion of a case. Seized property was released to the state's Distribution Center for resale without approval of the manufacturer whose items had been counterfeited. Improper sale of this merchandise could create a liability of the state.

We recommend a procedure be developed to address the proper safeguarding and disposition of counterfeit property.

1/4/2

Revenues

Restrictive endorsements and daily deposits would increase the state's interest earning ability and reduce the risk of loss.

Five previous audits of the Division of State Police, dating back to fiscal year 1980, cited the division for failure to comply with the relevant circular letters governing the handling and deposit of cash receipts. Treasury Circular Letter 94-24 mandates daily deposits to prevent loss or theft and maximize the state's interest earnings. For the quarter ended June 30, 1996, 22 deposits with amounts ranging up to \$2.5 million remained on hand in the fiscal control unit 2 to 5 days. These receipts represented the daily collection of revenue for various services the division performs. They are received and initially processed in their respective units for an undeterminable period of time prior to being remitted to the fiscal control unit.

Additionally, previous audits cited the lack of promptly applied restrictive endorsements prior to the checks being forwarded to the fiscal control unit for deposit. Since our last audit, the division developed an internal procedure addressing restrictive endorsements. However, three of four units reviewed did not promptly apply restrictive endorsements as required.

Recommendation

We continue to recommend the division comply with Treasury Circular Letter 94-24 and possibly investigate the use of electronic funds transfers for large dollar transactions. We further recommend the division comply with their internal operating procedure regarding prompt restrictive endorsement of checks.

1/4/2

Fixed Assets/Equipment

Compliance with state mandates regarding fixed assets and equipment reduces the division's vulnerability to theft and loss.

Three prior audit reports noted that the division did not maintain fixed asset and equipment inventory records in compliance with Department of the Treasury Circular Letter 91-32-OMB. An accurate equipment inventory system is necessary to provide a means of control to determine that state equipment is not stolen or misappropriated. The current audit noted some improvement attributed to the use of a bar code system, however, we found the following:

- C The division did not review lease agreements to determine which capital leases required inclusion on the state's report for the General Fixed Asset Account Group.
- C Equipment items purchased in quantity for distribution at a later date were not bar coded nor entered onto the division's equipment database until distributed.
- C Portable computer hardware and software may be assigned to employees for use at temporary work sites including employees' residences. The division's Property Control Unit did not maintain the records on such assignments as required in Circular Letter 88-24-OMB.
- C The inventory listings were not updated as required.

- C The division's equipment database contained more than 44,000 entries for equipment. Only 4,683 had a cost in excess of \$1,000. The remaining items had an average cost of \$180. Maintaining control records for items with limited value adversely affects the manageability of the inventory tracking system.

Recommendation

We recommend the division:

- C Review lease agreements and determine items properly includable on the equipment inventory and reportable as part of the state's General Fixed Asset Account Group.
- C Record items as they are received and update location and bar code information when applicable.
- C Document assets assigned to temporary locations.
- C Update inventory as required by Circular Letter 91-32-OMB.
- C Discontinue the maintenance of low cost items on the master inventory.

1/4/2

Approval Authority Exemptions

Reducing the approval levels will strengthen internal controls over NJCFS transactions.

Nine individuals at the Division of State Police had three levels of approval authority for processing transactions within the state's financial system (NJCFS). This condition provides an opportunity for the processing of inappropriate activity without subsequent supervisory review. The division had been granted an exemption from Circular Letter 95-11 and therefore been permitted to continue processing with these authorization levels. However, our review of the support for these exemptions disclosed that the controls in place at the division were neither preventive or detective as required by the circular.

Recommendation

We recommend the division reduce the approval authority for these nine employees by at least one level or enhance compensating controls to ensure the propriety of the division's transactions.

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State of New Jersey

DEPARTMENT OF LAW AND PUBLIC SAFETY
OFFICE OF THE ATTORNEY GENERAL
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TRENTON, NJ 08625-0081

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DEPARTMENTAL RESPONSE

May 2, 1997

Richard L. Fair, State Auditor
Office of Legislative Services
CN067
Trenton, NJ 08625-0067

Re: Audit Report Department of Law and Public Safety - Division
of State Police July 1, 1994 to June 30, 1996

Dear Mr. Fair:

I have received your report of an audit of the Department of Law and Public Safety, Division of State Police for the period July 1, 1994 to June 30, 1996. As requested in your covering correspondence, I would like to offer the following comments to the specific findings contained in the report.

Finding: Revenues - Fees and Cost Recovery

The Department agrees with the factual presentation in this finding. This situation is quite appropriate for the State Auditor to call to the attention of the Legislature. However, the recommendation unfairly implies that the Department has greater control and responsibility over licensing fee structures than it has. Setting the amounts of licensing fees is a policy determination which resides in the Legislature and which involves competing issues beyond the sole issue of cost recovery through fees. In this respect, the finding and recommendation seem to address circumstances beyond the proper handling and accounting of financial transactions within the Department's sphere of the control.

Finding: Mess Hall Operation Economy and Efficiency

Based on this audit finding, the Department, in consultation with the Division of State Police (DSP), will determine either to close the mess hall, contract with a private vendor to operate it, or whether there are feasible measures, such as price increases, to operate the mess hall at break-even.

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Richard L. Fair, Auditor
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April 30, 1997

Finding: Payroll Leave Records

DSP continues to pursue full implementation of the TALRS system for enlisted employees. Recently the Department of Personnel had to postpone implementation due to prior commitments to other agencies.

Finding: Payroll- Terminated Employees' Leave Credits

- A. The accrual of vacation and leave credits by enlisted personnel while on leave prior to retirement is a matter of intentional policy and not an "oversight."

During the period of time prior to their effective retirement date, enlisted members continue to maintain all police powers, with a corresponding duty to act in certain situations, and must comply with the following:

1. Retain all issued equipment until the effective retirement date;
2. Respond to work related subpoenas;
3. Adhere to the rules and regulations of the DSP;
4. Submit an application of outside employment if the member obtains employment prior to the effective retirement date. In the past, applications have been denied if a conflict of interest occurs with DSP responsibilities.

A retiring officer is more than just a name being retained on the payroll and, therefore, is not in the situation described by N.J.A.C. 4A:6-1.2 (a)4.

- B. The backlog of vacation leave credits has been exhausted, and those retiring with vacation leave balances are now being remunerated for those balances.
- C. DSP is currently recovering the cost of negative leave balances from employees that have separated from state service. The division has also coordinated with the SOIL Program, Division of Taxation, as a method of collection. Additionally the TALRS system will now immediately notify management of a negative leave balance, and corrective actions will be taken prior to the employee's separation.

Finding: Inventory

The Department agrees that the DSP warehousing function lacks adequate segregation of duties. However, the additional personnel required are not available. To improve this situation independent spot checks of inventory will be conducted by personnel not assigned to the Warehouse Unit.

Finding: Inventories - Counterfeit Property

Subsequent to the completion of the audit by the Office of the State Auditor, an internal review was conducted by the OAG, Internal Controls. The division is currently in the process of reviewing current policies and procedures with regard to evidence management and will formulate a procedure for the safeguarding and disposition of counterfeit property.

Finding: Revenues

- A It is admitted that revenues were not deposited promptly by the Fiscal Control Bureau in all instances. However, instances where revenue was held by the Fiscal Control Bureau from two to five days prior to deposit involve calendar, not business, days over either weekends or holidays or a combination of both. With respect to the timely deposit of revenues, the Fiscal Control Bureau has instituted procedures to deposit revenues in the bank on the date that they are received in its office. If revenues are received in the office after the daily deposit has been made, they will be deposited on the next business day. The division will continue to explore avenues to minimize delays between the receipt of revenue by an operating unit and its delivery to the Fiscal Control Bureau.
- B .Checks that did not receive prompt restrictive endorsement involved applications that were questioned for a variety of reasons. At times, the checks which are forwarded to DSP are attached to an application. The application must be checked for accuracy before the checks are accepted. An erroneous application is returned to the owner with the payment. Additionally, certain applications must be processed by multiple units to ascertain whether a proper fee has been forwarded. In instances where the payment was not contingent on an application, a restrictive endorsement was applied promptly. Nonetheless, DSP will review procedures to enhance the restrictive endorsement of checks.

Finding: Fixed Assets/Equipment

- A DSP has initiated a procedure to notify units involved with leased equipment to ascertain from the Property Control Unit whether the leased asset is required to be logged in the General Fixed Asset Account Group (GFAAG).
- B. The equipment referred to as being purchased in quantity for distribution at a later date and not being bar coded nor entered into the division's equipment database until distribution are computers and their accessories. Staffing levels make it unreasonable to open, tag, and repack the equipment.

The Technical Services Unit employs their own tracking/inventory system and database to account for all computer equipment received prior to the bar coding

process. Additionally, all the equipment and accessories in question are purchased for a specific unit who would question any missing items. The equipment is not at risk of being excluded from being recorded or tracked.

- C. With respect to the documenting of assets assigned to temporary locations, DSP had implemented an internal procedure in December 1993 to track assets in this classification. The Property Control Unit will take the appropriate action to ensure compliance.
- D. At the time of the audit, DSP was in the process of implementing and testing a bar coding system to improve the tracking of inventoriable assets. The Property Control Unit has indicated that the system is now complete and in compliance with *Circular Letter 91-32-OMB*.
- E. DSP will discontinue the tracking of low cost equipment items on the master inventory in an attempt to improve the manageability of the inventory tracking system.

Finding: Approval Authority Exemptions

DSP has reduced those with three levels of approval authority from nine individuals to six. The six remaining individuals work in different program areas and are required to maintain all three levels of approval authority. The depth of available bureau personnel would not reasonably permit the further reduction of those with three levels of approval. Doing so would, at times, render the division with an inability to conduct operations due to the lack of available personnel to process transactions.

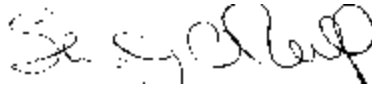
Realizing the exigent condition of State Police operations, internal controls were employed to better manage this responsibility. When someone with three levels of approval creates and approves a document, it is put on hold. A second individual with approval authority will then again approve the document. A record of the approvals can be verified on the ALOG table. A screen print of the document is made when the final approval is completed along with the signatures of both individuals applying electronic approval. This screen print is included in the filing of the transaction for backup justification.

The division will further research improving internal controls.

I would like to take this opportunity in responding to the audit report to express appreciation for the professional and positive efforts displayed by your audit staff.

Sincerely yours,

Thomas J. O'Reilly
Administrator

A handwritten signature in black ink, appearing to read "Tom O'Reilly". The signature is written in a cursive, somewhat stylized font.

TJO:CAW:cja

c Attorney General Vernier
First Assistant Attorney General Mintz
Colonel Williams

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