



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

**Department of the Treasury
Division of Purchase and Property
Distribution Center**

July 1, 1999 to June 30, 2001

**Richard L. Fair
State Auditor**

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The Honorable Donald T. DiFrancesco
President of the Senate

The Honorable Jack Collins
Speaker of the General Assembly

Mr. Albert Porroni
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Enclosed is our report on the audit of the Department of the Treasury, Division of Purchase and Property, Distribution Center for the period July 1, 1999 to June 30, 2001.

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

A handwritten signature in black ink, appearing to read "Richard L. Fair".

Richard L. Fair
State Auditor

September 11, 2001

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Department of the Treasury Division of Purchase and Property Distribution Center

Scope

We have completed an audit of the Department of the Treasury, Division of Purchase and Property Distribution Center for the period July 1, 1999 to June 30, 2001. Our audit included financial activities accounted for in the state's General Fund.

Annual expenditures of the Distribution Center were \$52 million. The prime responsibility of the center is to maintain and operate a central facility for the purchase and distribution of selected food and other materials used by various state agencies. Our audit excluded administrative expenditures which are audited as part of our Treasury Administration audit.

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, 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 the 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 sorted and transactions were judgmentally selected for testing.

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 the financial transactions included in our testing 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 meriting management's attention. We also found that the agency has resolved the significant issues noted in our prior report.

Customer's Accounts

C u s t o m e r
a c c o u n t i n g c o u l d
b e s t r e a m l i n e d .

Annually, the Fiscal Resource Unit processes 6,000 customer payments involving the identification of 23,000 invoices and mails 4,500 billing statements. When a customer makes a payment to the Distribution Center for goods received, the unit manually identifies the customer as well as the invoices to which the payment applies. Once this key information is determined, it is entered into the in-house computer system. In cases where it is unclear which invoice(s) the customer is paying, the Fiscal Resources Unit will arbitrarily apply the payment either to an outstanding invoice or to "on account" which does not apply the payment to a specific invoice, but gives the customer credit. We found the current process of recording a customer's payment to be tedious and cumbersome. The process could be streamlined if payments were simply applied against the customer's account rather than matched against individual invoices.

The current procedures generate a monthly billing statement which provides the customer a listing of their outstanding "open invoices". However, the billing statement does not provide sufficient information to the customer to assure them that their payments were received and applied to the proper account. Accounting for "open invoices" in this manner does not add value to the affected parties. A more informative billing statement would identify for the period the beginning balance, payments received, invoices charged, and the ending balance. This type of statement would provide the customer with a complete summary of the period's activity.

Recommendation

We recommend procedures be revised to record payments to the customer's account without identifying the affected invoices and revise the billing statement to report the period's activity.

Auditee's Response

Distribution Center concurs with the observation and is looking further into the recommendations suggested in the audit report.

The auditor suggests that DC change its billing statements to what is referred to as a "Balance Forward" statement. The current DC business system utilizes an "Open Statement" that shows the customer's current balance as well as all open invoices. Unfortunately, the current format cannot be adapted to a balance forward statement according to the software provider without programming new database tables and new logic. DC has obtained an informal estimate of \$25,000 to make the recommended change, however, the funds are not currently available. Nonetheless, DC will meet with the software provider and the Fiscal Resources Unit to review the issues raised in the audit report and determine what action can be taken to address their concerns.

It should be noted that since payments are processed through NJCFS, the billing issues are primarily ones of convenience and clarity for the customer and efficiency for the Accounts Receivable Unit. It should also be noted that DC has had very few complaints regarding the new statements and it is rare that a customer payment does not indicate how it should be applied. In instances where this does occur, every effort is made to reach the customer to determine their intent. If this cannot be accomplished then a payment is posted "On Account" so that it is credited.



Accounting Computer System

Implementation of standard protocols would ensure system reliability and data integrity.

In September 1999, a proprietary software system for inventory control and accounting was placed into operation at the Distribution Center. The state paid \$330,000 which includes licensing for 25 concurrent

users. In addition, an annual maintenance fee of \$30,000 is charged by the vendor for support services and product updates.

Since November 1999 programming defects have been discovered by the agency which have periodically caused the discontinuation of critical reports and some business operations until the vendor corrected the errors. These discontinued operations included accounts receivable, billings and collections. Some of the recently discovered errors had been previously corrected, however, reappeared. As of the end of our field work, the system continued to experience problems; jeopardizing the reliability and integrity of the accounting data and reports.

We further noted that software modifications were performed in the production environment without properly testing the accuracy of the corrections and that the vendor was self-monitored without review of another party. Such activity is contrary to standard protocol which requires modifications be done in a test environment. Before moving the modification to the production environment, the modification should be reviewed and migrated by technicians from the Office of Telecommunications (OIT) or Treasury Management Information Systems (TMIS). This would provide additional assurance that sufficient preventative, detective, or corrective controls are in place to adequately safeguard the data.

Recommendation

We recommend that the Distribution Center obtain the services of either an OIT or a TMIS technician to provide effective oversight of the vendor and the vendor should only be allowed to work in the test environment. Efforts to correct the system errors while following standard protocol should be the priority.

Auditee's Response

Distribution Center concurs with the observation and is looking further into the recommendations suggested in the audit report. Generally, the programming glitches that occur with any new

system, despite joint testing that preceded implementation, tend to be numerous and can cost many hours of productivity. The exceptional support of the software provider during the start up and through the first years of implementation saved DC and its customers substantial down time. Unfortunately, there were a few instances where programing changes did not work as expected and these were disruptive to the operation. Clearly, had these changes been more thoroughly tested before going into production, the problems might have been avoided. As DC moves past its second year with this business system, the practices employed should be reviewed with the appropriate technical staff to ensure that recommended protocols are in place and are consistently followed.

DC concurs that following standard protocols to ensure system integrity is of major concern. DC, TMIS, OIT and the software vendor have successfully tested and upgraded to newer versions of RFS in the past. In fact, DC has completed all testing to upgrade to the latest version of RFS but this upgrade has been stalled by the conversion to Windows 2000. DC does have the services of a Treasury technician on site for one half day per week, and we will discuss this finding to determine what steps can be taken to ensure that testing protocols are consistently followed.

