



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

**Department of the Treasury
Division of Purchase and Property
Bureau of Transportation Services
Central Motor Pool**

July 1, 1998 to September 22, 2000

**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

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Enclosed is our report on the audit of the Department of the Treasury, Division of Purchase and Property, Bureau of Transportation Services (Central Motor Pool) for the period July 1, 1998 to September 22, 2000.

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

October 20, 2000

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Department of the Treasury Division of Purchase and Property

Scope

We have completed an audit of the Department of the Treasury, Division of Purchase and Property - Bureau of Transportation Services (Central Motor Pool) for the period July 1, 1998 to September 22, 2000. Our audit included financial activities accounted for in the revolving fund established for Central Motor Pool (CMP) within the state's General Fund.

Total expenditures of the agency during the 26 month audit period were \$115 million. The prime responsibility of CMP is vehicle purchasing, maintenance and repair, and fueling. Our audit excluded administrative expenditures which were 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 transactions were 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 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 and matters of compliance with laws and regulations meriting management's attention.

We also found that the agency should continue to address certain issues noted in our prior audit report related to monitoring and controlling of inventories. These issues have been updated and expanded upon in our current report.

Inventory Control System

Controls over
inventory should
be improved.

CMP operates maintenance and repair facilities located throughout the state. Automotive parts and supplies inventories are physically located at these facilities and are tracked centrally through an automated valuation system. According to the records 100,000 parts valued at \$425,000 were in inventory as of May 2000. The system generates a report detailing any adjustments made to inventories. The report is a tool to assist management in effectively monitoring the parts inventory.

We found that improvements to CMP's inventory system are needed. The inventory adjustment report contained significant misleading information rendering it ineffective. Adjustments to inventory were made without obtaining an explanation, retaining adequate supporting documentation, or sufficiently disclosing on the inventory adjustment report why such an adjustment occurred. During the 18 month period ending June 2000, 40,000 parts valued at \$260,000 were adjusted from inventory and were all described as shrinkage on the adjustment report. Further analysis revealed the following reasons for the inventory adjustments:

- Approximately \$130,000 of adjustments were made to correct data entry errors.
- Inventory record keeping at one facility was not properly maintained while the responsible employee was on a two-month leave. Upon the employee's return, a physical count was performed to determine the actual inventory rather than attempting to bring the records up to date. This resulted in adjustments to inventory totaling 800 items valued at \$16,000. The adjustments were made without any additional inquiry.

- Periodically, CMP employees perform physical inventory counts of selected items at each of the facilities. Over 70 percent of the discrepancies noted as a result of those counts resulted in adjustments to inventory without obtaining an explanation as to the cause of the discrepancy. Furthermore, the physical counts involved the parts manager at the facility who was not an independent party.

A review of access controls to the inventory system disclosed that 45 employees (35 percent of the staff) had the ability to alter inventory records unilaterally and not be detected. It should be noted that the security privileges granted to these individuals exceeded their authority and responsibility. Additionally, original work orders are routinely discarded after data is entered into the computer system, making it difficult to verify the accuracy of the entries. This also violates a state statute which mandates a three-year retention period after disposal of the vehicle.

We also noted that CMP had disposed of surplus parts. Treasury Circular Letter (CL) 85-48-GSA and 00-16-DP governing excess/surplus property mandates that the disposition of assets beyond an agency's department must be administered by the Distribution Center Surplus Property Unit (DC). It is that unit's responsibility to determine whether the property can be used by other departments and, if not, dispose of it either through advertised bid or public auction. When CMP initiated a project to purge inventory parts that were no longer needed, individuals at the various facilities first arranged with parts vendors to purchase surplus items, and next transferred other parts to the Department of Transportation. Only the remaining items were sent to DC for disposal. It was further noted that records were not adequate to identify the number of parts and their associated value that were involved in the purge of the surplus parts. When brought to management's attention, records were partially reconstructed and it

was determined that more than 1,000 parts valued at more than \$25,000 were disposed of improperly. This situation not only violated the circular letter, but also created a greater risk that assets were not adequately safeguarded from loss or misuse.

Recommendation

We recommend that specific explanations be required when inventory adjustments are made. This would assist management in determining the amount of actual inventory shrinkage and identify other causes for inaccurate inventory records. We also recommend that physical inventory counts be conducted by an independent party. In addition, we recommend that staff not have the ability to unilaterally alter inventory records. This would improve access controls. We further recommend that, when surplus inventories are disposed of, CL 00-16-DP be followed and appropriate records of the transactions be retained.

Auditee's Response

The Bureau of Transportation Services is in agreement with the Office of Legislative Services' recommendations and has taken the following actions:

- The computer report referred to by the auditor has been redesigned to allow for identification with detailed explanations of all adjustments previously reported as "shrinkage".
- All facilities now have parts clerks and specifically designated alternates trained to keep inventory records current thereby ensuring employee absences will not result in the backlog of necessary inventory record entries.
- The number of employees with the ability to alter records has been reduced from 45 to 23 employees. None of these employees have unilateral access to make modifications. All stock locations have completed a 100 percent count of all inventory that will serve as the basis for a similar annual inventory that will be

supplemented by quarterly sample reviews. Inventory counts are now conducted by persons not responsible for the specific outcome.

- The auditor noted that paper copies of the work orders once retained in vehicle records jackets have been replaced by an automated record keeping system that had not received the approval of the State Records Retention Committee. A request to maintain work orders on our computer system rather than in vehicle records jackets has been submitted to the Records Retention Committee for approval. The computer system is compliant with the requirements for the length of time that the records need to be maintained.
- All employees of the Bureau of Transportation Services have received specific training on the disposition of surplus property. The situation noted by the auditor was the result of a surplus of outdated parts associated with the recent reduction of the number of vehicles with over 100,000 miles. Adequate safeguards have been instituted to ensure no reoccurrence, and the improperly disposed of parts resulted in savings off of new parts.



Gasoline Credit Cards

Unused credit cards
Should be
cancelled.

The CMP is responsible for ordering, approving, issuing, and monitoring the use of gasoline credit cards. The cards are used for situations in which state refueling facilities are not immediately available. Most cards have the license plate number preprinted on the face of the card and are assigned for use in a specific vehicle. CMP also uses “generic cards” which are not imprinted with a number and thus can be used with any vehicle. The current stock of credit cards exceeded the state’s needs. We estimated CMP had an inventory of

approximately 16,000 activated cards to support a 7,000 vehicle fleet. Of the 7,000 vehicles, 1,100 were assigned a credit card, leaving approximately 15,000 credit cards to be accounted for and stored at CMP. Our initial observation noted that the unissued cards were not adequately secured or inventoried.

To monitor the usage of the cards, CMP receives a monthly exception report. The exception report could not be used to monitor usage because of the large number of exceptions it reported, approximately 35 percent of the transactions processed. Our review of the exception report revealed a programming error that created a large number of the exceptions. There were also instances where authorized cards were not entered into the system. We further noted that when the CMP assigned generic cards, the system could not identify the using agency. As a result of these problems, the report was not used and CMP was unable to monitor credit card usage and bill approximately \$2000 per month in surcharges to agencies. Such control weaknesses increase the risk of loss or unauthorized use not being detected.

Recommendation

We recommend the CMP reduce the inventory of gasoline credit cards to only those currently authorized and issued. Future orders for credit cards should be made on an as-needed basis. Consideration should be given to receiving unactivated cards which could be activated when assigned. Generic cards could be used for emergency purposes and recalled when no longer required. We further recommend the agency correct the programming error in the exception report, develop a methodology of assigning the use of generic cards to agencies for billing purposes, and use the exception report to monitor credit card usage.

Auditee's Response

The bureau of Transportation Services is in agreement with the Office of legislative Services' recommendations and has taken the following actions:

- The inventory of gasoline credit cards has been reduced to the actual number of cars included in the Treasury managed fleet. The excess cards have been shredded for safe disposal. In the future credit cards on hand will not exceed the number of cars managed by the Bureau of Transportation Services.
- All credit cards are being stored in a fireproof safe that remains locked at all times. A policy memorandum has been issued to ensure that no cards are accessible during processing.
- The error noted in the computerized exceptions report of credit card usage has been corrected. A correction was incorporated into all transaction records to ensure that not only specifically assigned cards but also generic cards could be tracked to the using agency. The usefulness of the exceptions report has been greatly enhanced.
- We considered the auditor's recommendation that we receive credit cards that have not been activated, which could later be activated. We found that this recommendation was at variance with the primary credit card provider's corporate policy of issuing activated cards. The increased security on the cards and the reduction in the number of cards should achieve the desired level of control.



Bulk Gasoline Purchases

The Central Motor Pool uses state contract gasoline vendors to refuel gas stations located around the state. Vendors are awarded contracts for specific sites. Our analysis found, from April 1997 through June 2000, deliveries were made to the Northern State Prison fueling station by a vendor who had not been awarded the contract. Even though purchases were being made from an incorrect vendor, the

Contract vendors should be used for bulk fuel purchases.

subsequent payment review process did not detect the problem. Further review found that charges exceeded the contract price by \$61,000. Upon notifying the Purchase Bureau's Contract Compliance Unit, they initiated a review and subsequently recovered \$40,000 of the overpayment in a settlement dated August 25, 2000. The vendor who was originally awarded the contract is now delivering to the site.

Recommendation

We recommend that CMP continue to monitor gasoline purchases to assure that the appropriate contract vendor is used and contract prices are paid.

Auditee's Response

We accept the auditor's recommendation that we continue to monitor gasoline purchases to assure that appropriate contract vendors are being used and appropriate contract prices are paid. Specific actions taken include:

- Achieving an agreement with the provider at Northern State Prison to refund \$40,000 for billing errors.
- All personnel engaged in ordering fuel have been trained to review the contract to ensure fuel is being purchased from the contract vendor and at the correct price. It should be noted that the instance found by the auditor at Northern State Prison resulted from the Bureau of Transportation Services' assuming the responsibilities for ordering and payment of fuel oils from the Department of Corrections. Adequate review was not made at the time of the transfer of these responsibilities.

