

**Office of the State Auditor
Audit Report
State of New Jersey
Casino Control Commission
and
Department of Law and Public Safety
Division of Gaming Enforcement
July 1, 1994 to March 31, 1996**

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and
Department of Law and Public Safety
Division of Gaming Enforcement
Audit Report**

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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

We have completed an audit of the Casino Control Commission and the Department of Law and Public Safety, Division of Gaming Enforcement for the period July 1, 1994 through March 31, 1996.

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. However, we did note areas where improvement is needed. Equipment purchased through assessments to the casino industry, valued at over \$260,000, was transferred to other state agencies without reimbursement. Additionally, the Commission purchased items under the state set-aside program totaling \$4,800 without obtaining competitive bids and split invoices totaling \$17,900 to avoid seeking a contract through the Purchase Bureau. Details of these and other findings and recommendations are included in our 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.

Richard L. Fair
State Auditor
April 4, 1996

**State of New Jersey
Casino Control Commission
and
Department of Law and Public Safety
Division of Gaming Enforcement**

Scope

We have completed an audit of the Casino Control Commission and the Department of Law and Public Safety, Division of Gaming Enforcement for the period July 1, 1994 through March 31, 1996. Our audit included financial activities accounted for in the Casino Control Fund.

Total expenditures of the agency during the 21 month audit period were \$86.7 million. The prime responsibility of the Division of Gaming Enforcement and the Casino Control Commission is to monitor casino operations and ensure proper reporting of revenue. Receipts of the agency totaled \$97.2 million during our audit period and the major component of receipts was assessments to the casinos to fund operations of the Commission and the Division.

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.

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 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 examined. Other transactions were judgmentally selected.

Conclusions

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

Transfer or Sale of Equipment

Assets valued in excess of \$260,000, purchased with money from the Casino Control Fund, were subsequently transferred from the Division of Gaming Enforcement (DGE), and the Casino Control Commission (CCC) to other state agencies without reimbursement. N.J.S.A. 5:12-143 states "Moneys in the Casino Control Fund shall be appropriated, notwithstanding the provisions of P.L. 1976, c67 (C52:9H-5 et seq.), exclusively for the operating expenses of the Commission and the Division." Specifically we found the following:

- C The DGE expended \$21,500 for 51 weapons. After a change in management, the incoming director determined these weapons were not needed and were transferred to the Division of Criminal Justice without reimbursement. The weapons were later returned to the vendor, who issued a credit of \$12,100 to the Division of Criminal Justice.
- C The DGE expended \$1,800 for ammunition subsequently transferred to the Division of State Police without reimbursement.
- C The Division surrendered 171 cars to Central Motor Pool between fiscal years 1992 and 1996 as part of a state-wide fleet reduction. These cars were either reassigned to other state agencies or sold through the State Distribution Center without reimbursement to DGE. The 55 vehicles surrendered during fiscal years 1995 and 1996 were valued at approximately \$115,000. The agency was unable to determine a value for the remaining 116 vehicles transferred prior to fiscal year 1995. Based on the values assigned by the division for the 55 vehicles mentioned above, we estimate a value for the remaining 116 vehicles of between \$40,000 and \$300,000.
- C The CCC transferred computer equipment valued at \$26,000 to Department of the Treasury without reimbursement.

The conditions noted above are the result of the Division and the Commission distributing surplus assets to the Divisions of Criminal Justice and State Police, and the Department of the Treasury in accordance with State Treasury Circular Letter 85-48 which states "Any excess property must either be made available to another State agency at no charge or be declared "surplus" and be sold through bidding or public auction." A legal opinion rendered by the Legislative Counsel indicated that the circular letter is superseded by the statute quoted above. DGE has sought reimbursement in some instances, however, the other state agencies have not acted on

those requests. The effect of these transfers is that the casinos are unknowingly subsidizing the General Fund.

We recommend the Division of Gaming Enforcement and the Casino Control Commission obtain reimbursement for all assets transferred to other state agencies. We further recommend that the Division and Commission institute a policy to ensure reimbursement at the time future assets are transferred.

Casino Control Commission Data Processing Center

Physical access to the data center in the Arcade Building and electronic controls over access to data need to be improved. The Casino Control Commission's Electronic Data Processing (EDP) unit maintains a data center at the Arcade Building where applications are run on a mini computer. The EDP unit is responsible for the allocation of commission operating costs to the casinos, tracking requests for casino employee licenses and providing support for all users within the commission. Specifically we found the following:

- C Access to the data center was not restricted. The door was left unlocked and propped open during the day. Access to the data center should be restricted and limited to individuals authorized to be present.
- C The data center does not maintain an access log to record individuals accessing the data. Maintenance of a log would identify unauthorized access to data.
- C Applications were not designed to reject erase or delete commands. If erase or delete commands are allowed, information could be altered and the alteration remain undetected.
- C The data center did not maintain a history log to record unusual events. If an application should terminate other than normally, a history log would identify the reason and would provide an audit trail.

- C The system did not generate a suspense account entry when a transaction was rejected. When a record is rejected it should go into a suspense file for further review by the appropriate officials.
- C No record was created and added to the backup file showing a “before and after” picture of the data when a record was entered. A “before and after” image would allow early detection and identification of errors.

All of the above are violations of internal control standards. Necessary control procedures were not properly designed and initiated because of the EDP unit’s growth over time and the cramped quarters in which it is housed. These weaknesses make it difficult to detect and correct errors in processing. Lack of control over physical access to the data center and electronic access to the data can raise questions regarding data integrity.

We recommend the CCC design and implement the procedures necessary to ensure the integrity of the data produced by its EDP Unit. The Commission can take the opportunity afforded by the planned move to strengthen controls over physical and electronic access.

Administration of State Set-Aside Program

The state mandated set-aside program was not being administered properly by the Casino Control Commission (CCC) or the Division of Gaming Enforcement (DGE). Our review of expenditure activity found that four purchases for approximately \$4,800 made under the set-aside program did not have evidence of competitive bidding. In addition, we found that paper, available through the distribution center for approximately \$900, was purchased under the set-aside program for \$1,700.

N.J.A.C. 12A:10-1.2 to 5.3 requires state agencies with contracting authority to make a good faith effort to award 15 percent of state contracts to eligible small businesses, seven percent of state contracts to eligible minority businesses, and three percent of state contracts to eligible female businesses. The Administrative Code further requires awards under the set-aside program be granted under competitive bidding procedures. Where the acceptance of the lowest bid would result in the payment of an unreasonable price, all bids are to be rejected.

The Commission believed that competitive bids were not required when making purchases under the set-aside program. The Division of Gaming Enforcement was unaware of the requirements of the set-aside program.

We recommend the CCC award contracts under the set-aside program in compliance with state regulations and require competitive bids from contract vendors. We also recommend the DGE comply with the requirements of the set-aside program.

Appropriations

Our examination of appropriation activity at the Casino Control Commission (CCC) during our audit period found weaknesses in the following areas:

- C A purchase of uniforms for casino inspectors in the amount of \$17,900 was split to avoid seeking a contract through the Purchase Bureau. Treasury Circular Letter 93-23F requires that all purchases over \$10,000 be completed via a contract through the Purchase Bureau. By purchasing directly, the individual agencies have lost the expertise of the Purchase Bureau.
- C As indicated in our finding regarding the set-aside program, Treasury regulations require competitive bids for certain purchases. Because of a lack of supervisory oversight, the commission did not always follow the requirements of Treasury Circular Letter 93-23F. We tested 14 items where competitive bids were required and found they were not obtained in six cases totaling \$15,600. Not seeking competitive bids can result in agencies paying higher prices for goods and services.

We recommend the practice of splitting orders to avoid obtaining contracts be halted and competitive bids be obtained in all instances required by Treasury Circular Letter 93-23F.

Casino Control Commission Audit Unit

The audit unit at the Casino Control Commission (CCC) should alter two policies to be in compliance with internal auditing standards. The main function of the audit unit maintained by the CCC is to monitor revenue at the casinos and ensure that the state receives eight percent of gross revenue as required by NJSA 5:12-144. The CCC has recently expanded the responsibilities of the audit unit to include internal auditing. While the Commission has made an effort to comply with internal auditing standards, our audit noted two areas of deficiency.

- C The audit unit currently reports to the director of the finance unit. While this was appropriate when they audited only casino revenue, it is a violation of internal auditing standards when they audit areas within the Commission. The unit is attempting to perform two functions with different reporting responsibilities while maintaining one reporting chain. According to standards issued by the Institute of Internal Auditing, "The Director of the internal auditing department should be responsible to an individual in the organization with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations." Although the two auditors currently involved in the internal audit function report the results of those audits to the Audit Committee, they remain under the direct supervision of the Director of Finance and this may call into question their independence.

- C There is no formal rotation of auditors between the casinos. Internal Auditing Standards state "Staff assignments of internal auditors should be rotated periodically whenever it is practicable to do so." Management does not currently rotate the auditors, encouraging them to develop a working relationship with casino employees and facilitate the audit process. If staff is not rotated between casinos, the danger exists that a familiar relationship will develop between the auditor and the auditee and the independence of the auditor could be compromised.

We recommend the audit unit:

- C Report on internal audit findings directly to the audit committee.

- C Rotate auditors between the casinos.

Fuel Usage

We found that the Division of Gaming Enforcement (DGE) could have saved approximately \$17,200 during fiscal year 1995 by utilizing state fuel pumps. Our examination of the appropriation records of the DGE found that, for convenience, employees were routinely utilizing gasoline credit cards at public service stations, which are substantially higher in price than is available at state pumps. Total credit card expenditures for the purchase of fuel was approximately \$51,200. Treasury Circular Letter 95-14 states "Credit cards are to be used only when State operated fueling or repair facilities are not available, or in an actual emergency situation".

We recommend the state fuel pumps be utilized.

Fixed Assets

During fiscal year 1995 the Casino Control Commission (CCC) and the Division of Gaming Enforcement (DGE) jointly implemented a policy that manufacturers should bear the cost of testing new slot machines. We found there was no compliance with the policy in effect regarding ownership of this equipment. DGE does not maintain an inventory list of these assets. Without a list, there is no way to determine which assets were located at the DGE facility in the event of a fire or other loss. In addition, some equipment is on loan from manufacturers. While a list of this equipment is maintained, it is stored in a desk drawer on site.

We recommend DGE enforce their policy regarding recording assets used in testing slot machines and maintain lists of these assets. These lists should be stored off-site.