Department of Commerce and Economic Development

July 1, 1995 to June 20, 1997
Enclosed is our report on the audit of the Department of Commerce and Economic Development, for the period July 1, 1995 through June 20, 1997.

If you would like a personal briefing, please call me at (609) 292-3700.
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Department of Commerce and Economic Development

Scope

We have completed an audit of the Department of Commerce and Economic Development for the period July 1, 1995 through June 20, 1997. Our audit included financial activities accounted for in the state’s General Fund, Community Development Bond Fund, New Jersey Local Development Financing Fund, and Enterprise Zone Assistance Fund. The audit did not include the Commission on Science and Technology and the New Jersey Public Broadcasting Authority.

Total expenditures during the 24 month audit period were approximately $107 million. The prime responsibility of the Department of Commerce and Economic Development is to promote the expansion and growth of commerce, industry and tourism within the state. Revenues of the programs audited totaled approximately $3.4 million. The major component of revenue was interest earned on Local Development Financing Fund loans.

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 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 selected. Other 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.

Our audit procedures also included field visits to:

* New Jersey Economic Development Authority in order to examine administrative costs charged to the New Jersey Local Development Financing Fund loan program,

* Urban Enterprise Zone districts in order to verify the completion of projects funded by the program as part of the revitalization process,

* Rutgers University in order to inquire as to the Small Business Development Center program to which the state provides a grant, and

* warehouses primarily utilized by the Division of Travel and Tourism in order to examine storage safety and determine if out-dated material exists.

**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 has resolved the significant issues noted in our prior report except for a matter related to a lack of audits of projects funded by the Urban Enterprise Zone program. This issue has been updated and restated in our current report.

**Auditee’s Response**

Thank you very much for your assistance in pointing out areas where we can improve our operations. Your staff has conducted themselves in a very professional manner and we commend their efforts.
The implementation of proper internal controls over New Jersey Comprehensive Financial System (NJCFS) and Management Acquisition Control System Enhanced (MACS-E) would reduce the risk of loss or misuse of funds.

Office of Management and Budget Circular Letter 95-11 OMB states that any individual with all three levels of NJCFS approval will not be allowed to enter or change NJCFS transactions. The department has two individuals who have the ability to process an entire transaction which includes enter, change, and all three levels of approval. When the Office of Management and Budget (OMB) granted the two individuals ability to have all three levels of approval they did not remove their ability to enter or change. As a result these two individuals have the ability to process an entire transaction. Without the proper segregation of duties, one person has the ability to process an entire transaction.

Individuals with the MACS-E “P-byte” (enables someone to process an entire MACS-E transaction which includes requisitions, purchase order, invoices and payments) capability in combination with third level approval capability in the NJCFS “MACB” security group can process a requisition and purchase order and initiate the payment action in NJCFS. Based on our review we found four individuals with the “P-byte” capability and third level approval in the “MACB” security group. Controls have not been implemented in order to prevent one employee from processing an entire transaction.

Recommendation

We recommend the department contact OMB to have them change the NJCFS and MACS-E security configurations to enhance segregation of duties.

Auditee’s Response

We concur with this recommendation. The department has removed the three levels of approval from the two individuals on the NJCFS security profile to segregate the approval process. The department has adjusted the MACS-E security profile for the four individuals with the “P-byte” with three levels of approval in the “MACB” security group.
Internal Controls - Revenue

During fiscal year 1996 the department decentralized its fiscal operations. Each division became responsible for the collection and processing of their own revenue, which amounted to more than $1 million during our audit period. It is management’s responsibility to establish an adequate internal control structure which should include segregation of duties, restrictive endorsements, preparation of mail logs and periodic reconciliations.

Our review disclosed internal control weaknesses within each division. With each division responsible for processing their own revenue, there is a limited number of staff involved in the process. As a result, the same employee applied the restrictive endorsement, deposited the checks, and recorded the cash receipt. Although three of six divisions maintain mail logs, no periodic reconciliations were performed. These internal control weaknesses increase the risk of checks being lost or not properly recorded.

Recommendation

We recommend that the revenue process be properly segregated. Mail logs should be maintained and reconciliations should be performed by someone not involved in the revenue process in order to strengthen internal controls.

Auditee’s Response

We concur with this recommendation. The department has established a procedure for segregation of duties for the receipt, deposit, and periodic reconciliations of revenue received.

Internal Controls - Payroll

Management is responsible for establishing internal controls that will safeguard assets from loss or irregularity. Our review of payroll procedures disclosed a weakness in internal controls in regards to payroll preparation and subsequent pay check distribution. The individual who prepares the payroll proofs for submission to Department of the Treasury centralized payroll unit also has access to...
would reduce the risk of loss or misuse of funds.

the pay checks prior to distribution. This same individual also has the ability to add and delete employees on the Department of Personnel Management Information System. This lack of segregation of duties presents a potential for loss where a check could be generated and removed prior to check distribution without being detected.

**Recommendation**

We recommend that management strengthen internal controls by ensuring that the check distribution process not utilize employees involved in payroll preparation. Furthermore, employees involved in payroll preparation should not have the ability to add and delete employees on the Department of Personnel Management Information System.

**Auditee’s Response**

The department will not be doing payroll, due to the New Jersey Department of Personnel taking over all personnel work under a pilot project call “Shared Services” in the Mary G. Roebling Building. All agencies in the building will be incorporated into this project.

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**Disaster Recovery Plan**

The department maintains a computer based management information system which services the database files of two major programs. In the Urban Enterprise Zone program there is a certification of businesses within the enterprise zones database which contains information related to approximately 6,000 active businesses and also a file of inactive businesses. In the Division of Development of Small Businesses and Women and Minority Businesses there is a database of about 3,150 certified businesses. A great deal of time would be needed to reproduce these databases from hard copies of applications if their database was lost.

These database files are handled by a server with data being backed-up daily. The back-up tape has been stored in the same room as the server. Proper controls against loss would suggest that the tape be stored off-site so that the likelihood of both sources of data being destroyed is
reduced, especially since there is a history of water damage in the building.

In addition, there is no disaster recovery plan for the department in the event of the loss of hardware. Arrangements should be made in case of a disaster to restore programs and database files at alternate locations so operations could continue without major delays in service.

**Recommendation**

We recommend that the MIS unit develop a disaster recovery plan and take immediate action to store the back-up tape at an off-site location.

**Auditee’s Response**

We concur with this recommendation. The department has asked an MIS company to come up with a plan in case of a disaster to restore programs and database files. The department has already taken action to store the daily back-up tape at an off-site location.

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### Hold Checks

The department should eliminate the use of hold checks for reasons other than those specified by Circular Letter 94-17-OMB.

**Recommendation**

We recommend that the department comply with the requirements of Circular Letter 94-17-OMB to limit the number of hold checks.

**Auditee’s Response**

We concur with this recommendation. The department at its office managers meeting has stressed the importance of Circular Letter 94-17-OMB to reduce the risks of loss or misuse associated with the handling of checks.

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### Bayshore Development Project Receipts
By requesting payment in a timely manner, $15,000 of interest could have been earned by the state.

The agreement between The Port Authority of New York and New Jersey and the department for the Bayshore Development Project states that each calendar quarter the department shall prepare and provide the authority with a good faith estimate of the dollar amount of actual costs expected to be paid by the department for the project. Our examination revealed that the Division of Economic Development has not submitted estimates nor requested reimbursements of actual costs in a timely manner. The applications for payment for the quarters ending June 30, September 30, and December 31, 1995 totaling $230,000 were not submitted until April 16, 1996. As of April 30, 1997, no applications for payment for the period January 1, 1996 to March 31, 1997 had been submitted. Expenditures for this period were $180,000. If these applications for payment had been submitted in a timely manner, $15,000 of interest could have been earned by the state.

**Recommendation**

We recommend that the department estimate costs that will be spent during the quarter and submit this to the authority for payment.

**Auditee’s Response**

We concur with this recommendation. The department will bring all quarterly reports up to date and submit future reports on time to the authority.
Audits of Closed Urban Enterprise Zone Projects

The Enterprise Zone Assistance Fund was established in August 1983 for the purpose of encouraging the revitalization of some of the state’s most distressed urban areas. The program is funded through a 50 percent reduction in retail sales tax for businesses located within the enterprise zone. Collected taxes are deposited in the individual zone accounts and are released for approved projects. There were initially ten zones and there are currently 27 zones.

As of December 31, 1996 the Urban Enterprise Zone (UEZ) program had approved 526 projects with total budgets of $143 million including the state share of $129 million. Of those projects, 327 have been closed representing $58 million of state expenditures. Since the department relies on the procurement controls of the individual zones, closer monitoring is necessary to verify that funds are properly utilized and reported. One hundred seven projects with state expenditures of $23 million have been audited. This represents 32 percent of the closed projects or 40 percent of the state expenditures. However, there have been only two project audits since September 1995. In accordance with UEZ guidelines, financial reviews should be performed for all projects. These reviews would provide additional information for the annual report to the governor. Currently, there is only one individual assigned the responsibility of performing these audits. This same individual also is involved in maintaining project records, approving and reviewing project proposals, approving reimbursement requests, and preparing contract agreements.

**Recommendation**

We recommend the department increase audit activity over urban enterprise zone projects. They should develop a plan that will prioritize audits based on potential risk.

**Auditee’s Response**

We concur with this recommendation. The recommendation to increase audit activity over urban enterprise zone projects coincides with the objectives
put forth in the fiscal year 1998 budget plan. This plan recognizes the critical need to expand the fiscal services functions of the UEZA through the creation of one new staff position, relocation of one staff member and utilizing the services of an independent auditing firm.

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