# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmittal Letter</td>
<td>1</td>
</tr>
<tr>
<td>Scope</td>
<td>3</td>
</tr>
<tr>
<td>Objectives</td>
<td>3</td>
</tr>
<tr>
<td>Methodology</td>
<td>4</td>
</tr>
<tr>
<td>Conclusions</td>
<td>4</td>
</tr>
<tr>
<td>Findings and Recommendations</td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>5</td>
</tr>
<tr>
<td>Payroll and Personnel</td>
<td>5</td>
</tr>
<tr>
<td>Motor Vehicles</td>
<td>7</td>
</tr>
<tr>
<td>State Grant and Loan Compliance Testing</td>
<td>8</td>
</tr>
<tr>
<td>Departmental Response</td>
<td>9</td>
</tr>
</tbody>
</table>
Enclosed is our report on the audit of the Department of Environmental Protection, Selected Programs for the period July 1, 1994 to February 29, 1996.

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

Richard L. Fair
State Auditor
January 10, 1997
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DEPARTMENT OF ENVIRONMENTAL PROTECTION
SELECTED PROGRAMS

Scope

We have completed an audit of the Department of Environmental Protection-Selected Programs for the period July 1, 1994 to February 29, 1996. Our audit included financial activities accounted for in the state's general and special revenue funds.

Total expenditures of the agency during the 20 month audit period were $179 million. The primary responsibility of the Department of Environmental Protection is the conservation and protection of the environment. The selected programs included in our review include Administrative Operations and Office of Governmental and Regulatory Affairs. Administrative Operations has responsibility for management of the department’s budget systems, accounting operations, personnel management systems, central services and procurement operations. Office of Governmental and Regulatory Affairs coordinates the proposal and adoption of environmental rules and regulations. Revenues of the agency totaled $15.8 million during our audit period and the major components were federal grants and bond issuance proceeds allocated to the special revenue funds.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the agency’s programs, were reasonable and were properly recorded 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. Revenue and expenditure populations were stratified and large dollar transactions were examined. 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.

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.

We also found that the agency has resolved significant issues noted in our prior report.

**Conclusions**

Details of our findings and recommendations follow.
Revenue

Finding

We noted that subscription revenue for the New Jersey Outdoors Magazine was not properly supported. This internal control weakness occurs because the batched supporting documentation that is used to record the deposits was discarded by the Office of Communications (Publications, Graphics, and Correspondence). The revenue amounted to $280,000 during fiscal year 1995. In addition, the duties of collecting cash receipts for initial subscriptions and recording the related subscriber data in the database are not segregated. Proper internal controls such as the maintenance of adequate supporting documentation, and segregation of duties are essential to help prevent the misplacement or improper use of the receipts.

Recommendation

We recommend that the Office of Communications improve their internal controls by maintaining adequate supporting documentation and segregating duties relating to initial subscriptions for the New Jersey Outdoors Magazine revenue.

Payroll and Personnel

Finding

Salaries of employees of the Administration Operations, and Office of Governmental and Regulatory Affairs for fiscal year 1995 and the first eight months of fiscal year 1996 were $28.4 million and $14.7 million, respectively. There was no segregation of duties between the payroll and personnel functions. The same individuals in the personnel/payroll unit perform personnel and payroll functions as well as supervision of paycheck distribution. The personnel/payroll unit should not have custody or responsibility for the distribution of payroll checks. The lack of segregation of duties could enable a misappropriation of payroll funds to occur without detection.

Our review of the average span of control (the ratio of professional and semi-professional workers to supervisors) disclosed that there are more supervisory than non-supervisory positions in the Administration Operations and Office of Governmental and Regulatory Affairs units. The existing
ratio was .73 to 1. The average span of control of other state agencies throughout the country is 5 to 1 according to the Governor's Management Review Commission operational audit report.

Employees qualify for sick leave injury (SLI) when their ailments or injuries are sustained during the normal course of state business. SLI must be approved by the Department of Personnel, otherwise employees do not qualify for the state program and must use their own available leave time. The personnel/payroll unit posts SLI usage to the employee leave records prior to approval by the Department of Personnel. This procedure resulted in unauthorized use of sick leave injury by four different employees.

In addition, the personnel/payroll unit is not enforcing their policy (Policy #2.10) designed to limit sick leave usage. The policy requires that employees obtain doctor notes for absences in excess of 15 days during the calendar year. We found that doctor notes were missing in 69 percent of our sample items, and there was no follow up action taken to request them.

**Recommendation**

We recommend that:

C the payroll/personnel unit segregate the responsibilities of payroll preparation, personnel transactions, and distribution of paychecks to enhance the system of internal control;

C the Administration Operations, and Office of Governmental and Regulatory Affairs units review and adjust its organizational structure to increase the average span of control by converting supervisory positions to non-supervisory wherever possible; and

C the payroll/personnel unit revise their existing practice and post sick leave injury to employee leave records after proper approvals are obtained. In addition, the unit should enforce the sick leave policy and require employees to provide doctors notes when required.

$\frac{1}{4}/2$
**Motor Vehicles**

**Finding**

We noted in our prior report dated December 15, 1993 that the department is underutilizing both individually assigned and pool vehicles. We found that the department continues to underutilize both classes of vehicles.

The department operates a fleet of approximately 568 vehicles which are required to meet the mileage guidelines set forth by Department of the Treasury Circular Letter 93-04. This circular requires individually assigned vehicles to be utilized a minimum of 1,600 noncommuting miles per month and pool vehicles a minimum of 1,000 miles per month.

Our tests consisted of reviewing the reported mileage for all vehicles during the period of July through December 1995 and comparing it with a lower minimum mileage standard of 1,000 miles per month for all vehicles.

We excluded mail trucks, emergency response vehicles, pool vehicles used by the entire department, and Division of Parks and Forestry vehicles from our population for testing.

The lower standard represents the cost effective breakeven point. We found that 59 percent (336) of the vehicles were underutilized resulting in excess vehicle costs of approximately $300,000.

**Recommendation**

We recommend that the department comply with Treasury regulations and return excess vehicles to the Bureau of Transportations Services.

\(\frac{3}{4}\)
State Grant and Loan Compliance Testing

Finding

The department contracts with various counties and municipalities throughout the state for the purpose of providing state grants and loans to local government units in order to acquire and develop lands for recreation and conservation. Contract payments relating to the New Jersey Green Trust Fund of 1992 (fund) were $4.3 million during fiscal year 1995 and $3.8 million for the period July 1, 1995 to February 29, 1996. The department did not inform the Department of the Treasury’s Office of Management and Budget about the specific compliance requirements pertaining to the fund loans and grants precluding the required compliance testing during annual audits of the local government units. The compliance testing is required pursuant to the Treasury Circular Letter 93-5. The department relies on the compliance testing performed during the audits of the counties and municipalities to monitor whether the loans and grants are being used for their intended purpose.

Recommendation

We recommend that the department prepare the required compliance requirements relating to the fund loans and grants and forward them to the Department of the Treasury’s Office of Management and Budget.
DEPARTMENTAL RESPONSE

December 31, 1996

Richard L. Fair
State Auditor
Office of Legislative Services
Office of the State Auditor
125 South Warren Street
CN067
Trenton, New Jersey 08625-0067

Dear Mr. Fair:

Thank you for the opportunity afforded the Department to review and comment on the audit report entitled "Department of Environmental Protection - Selected Programs".

We are pleased that the audit concluded that the financial transactions tested "... were related to the agency's programs, were reasonable and were properly recorded in the accounting systems." We are also pleased that corrective actions taken by the Department in order to address previous audit findings were found to be satisfactory.

At the same time, we are very concerned over the characterization of the several findings which the report depicts as "significant internal control weaknesses." This is especially true when each item was thoroughly discussed at the post audit conference or thereafter. We also thought these areas would be presented as "discussion items for review." Moreover, staff advises that essential reference materials were presented with respect to such issues such as staff ratios and vehicles.

In any event, we will respond to each finding in the order presented in the audit report:

**Revenue Associated with "New Jersey Outdoors"**

The finding and recommendation are directed at a perceived internal control weakness, specifically a lack of segregation of duties regarding the receipt and processing of initial subscriptions for the New Jersey Outdoors magazine, within the Office of Communications.
This condition had already been corrected, prior to the completion of audit fieldwork through the adoption of Policy and Procedure 3.30. As such, subscription revenue is now initially received in our Bureau of Revenue (BOR) and the accompanying subscription data cards are routed to the Office of Communications for maintenance in their database. Subsequent to the database update, the original subscription data cards are then returned to BOR for filing as supporting documentation.

**Payroll and Personnel**

**Segregation of Duties** - The payroll/PMIS personnel functions have been separated. We acknowledge that during the period encompassed by the audit, the Division of Personnel's Human Resources unit had payroll and PMIS unified under the direction of one supervisor. However, as a result of the FY97 Reduction in Force (RIF), implemented on 7/6/96, and also taking into consideration recommendations from the post audit conference, the payroll and timekeeping unit was placed under the supervision of one individual, while PWS/payroll were placed under the supervision of another. There is also an internal audit team whose responsibility it is to review and track all personnel requests. These individuals report jointly to the Chief of Human Resource Management, where all requests for personnel actions originate and the Director. As noted, at the time of the audit, the Assistant Division Director still reviews all PMIS actions and issues final approval prior to forwarding such actions to the Department of Personnel.

**Span of Control** - We take exception to the finding that the organizations reviewed have an exceptionally high supervisor/staff ratio, especially when the early 1990 GNMC report is offered as the benchmark. Certainly the RIF process has impacted both the number as well as the level of staff that remain in these post-RIF organizations. It must be noted that the organizations reviewed have witnessed staff reductions exceeding 34% over the past 3 years. The RIF process being a length of service driven system certainly has a greater impact on newer/non-supervisory employees by virtue of the bumping process. Also, we are finding higher attrition in the case of employees who have been demoted to lower non-supervisory levels and thus have experienced significant salary reductions. Finally, attrition tends to be higher in the first five years of state service, prior to individuals being appointed to supervisory titles.

In addition, while the Audit cites the Governors Management Review Commission (GMRC) report, which referenced a 1:5 supervisor/employee ratio, DEP conveyed the following information to the Audit team. The Department was represented by two members on the State's Compensation Study Task Force in 1993. The Task Force found that the State's supervisor/staff ratio for union represented employees was approximately one supervisor to every 2.91 staff members. When the task force examined the issue, it found that a number of titles assigned to supervisor bargaining units had very clear verbiage in the title description which related to supervising a task/project. Thus, supervisory titles do not exclusively require the supervision of employees.

Two examples of the above are an Administrative Analyst I and a Principal Clerk Typist. Both titles are assigned to supervisory bargaining units and in fact have supervisory duties indicated in their Civil Service Job Specifications. However, when reclassification requests for these titles are submitted to the Department of Personnel (DOP) or a desk audit is performed by the DOP, positions have been reclassified to the Administrative Analyst I and Principal Clerk Typist levels when it is clearly indicated in the statements of
the supervisor, the employee and the appointing authority that the individual does not supervise other employees. Rather, they are highly skilled employees who do complex technical work or are responsible for supervising a project or specific set of tasks. Therefore, an individual in a supervisory title does not necessarily have to supervise other employees.

Additionally, the Governor's Office of Employee Relations assigns a bargaining unit based on the job description when a new title is created. Even if the duties change substantially, either by adding or deleting "supervisory duties", the title is not necessarily moved in or out of the assigned bargaining unit by the union or the Office of Employee Relations.

Also, based on data recently provided by the Department of Personnel, an analysis was done to develop current supervisor to staff ratio. That data again shows a ratio of one (1) manager/supervisor to every 2.54 staff.

Given the extent of the change that has occurred in these organizations, the intricacies of the State's classification system and the realities of actual supervisor to worker ratios that exist in State service, we do not feel that this specific finding merits being labeled as "significant internal control weakness" in the case of DEP.

**Sick Leave Injury (SLI)** - The Audit indicates that the Payroll/Personnel unit posts SLI usage to leave records prior to approval by the Department of Personnel. The findings cites that this procedure resulted in the unauthorized use of SLI for four different employees. However, in all cases the employees had already received SLI benefits and were doing follow-up's with physicians for physical therapy or medical status reevaluations. These individuals were subsequently approved for SLI by DOP and the employees had been instructed to file revised time sheets to correct the records. We do, however, agree that the employees and/or their supervisors were not immediately responsive and revisions were done significantly after the fact. Further, while it is correct that the Department of Personnel grants final approval for sick leave injury, it is also exceptionally rare when the Department of Personnel does not accept the Appointing Authority's recommendations. In the cases cited the department was granting an extension of sick leave injury, which was approved by the Department of Personnel.

**Sick Leave Usage** - In accordance with the Department of Environmental Protection's Policy and Procedure 2.10, employees must obtain a doctor's note for 15 or more sick days in the calendar year. During the time period from 1/1/95 to 12/1/95, there were cases where employees exceeded 15 days of sick leave use. Six of 12 employees, tested by the Office of State Auditor, were found to have exceeded the 15 days.

In response, it should be noted, that in accordance with the Federal Americans with Disabilities Act (ADA) protocols, medical records are maintained in the Center of Occupational Medicine's (COM) files. Part of the problem cited here stems from the fact that DEP maintains medical records separate from its Personnel organization. This includes ADM-137's and health status reports. Accordingly, ADM-137's, are not part of the employee's personnel file. It should also be noted that in accordance with existing labor agreements, an employee with a chronic illness is required to file evidence of a chronic illness only once every six months regardless of the amount of sick leave taken. During the time period of the audit, if a supervisor or member of the personnel unit raised questions regarding the legitimacy or severity of an illness, DEP's Physician, at the Medical Center, made the determination if the illness was legitimate or chronic and advised personnel accordingly. Such evaluations would be part of the personnel file only if the sick use was not warranted.
We also note that only 1 case significantly exceeded the 15 days. Employees may use sick leave for other purposes, such as, when there is death in the immediate family. This happened to be the case for one employee who used two of the 15 sick leave days in 1995. Another employee, participated in DOP's donated sick leave program, by donating 10 days of her sick time to another employee. This time is not listed as sick leave used, but is deducted from balances available. Finally, as previously indicated, the Department's policy and procedure for approved leave is currently under revision to include many changes in the leave rules as well as to reflect the changing role of the COM. These changes should help revolve various issues found in this audit.

Motor Vehicles

Including this issue as a finding is certainly a concern to this Department considering the postaudit discussions which took place as well as the materials that were provided to the audit team.

It has been the department's position for some time that using mileage as the lone determining factor to ascertain whether vehicles are underutilized within a particular program is invalid.

Starting in 1989, DEP began conducting formal reviews of vehicle assignments/usage and as a result, has returned 473 vehicles to Central Motor Pool. The reviews also confirmed that the remaining number of vehicles were necessary regardless of the monthly mileage on each vehicle and that the use of employee owned vehicles was not a viable option. It is also important to note that after the last turn-in of state vehicles (Summer 1994), three comprehensive reviews of vehicle usage were initiated by DEP. Copies of those reviews were provided to the audit team during the course of the audit follow-up. The reviews involved three major areas (Enforcement, Environmental Regulation, & Policy and Planning) of the department. Significant among the findings in those reviews were:

DEP staff, in the performance of their work duties, are regularly required to carry in their state vehicles specialized equipment (e.g. radiation detection instrumentation, air/water sampling equipment, solvents, air packs, first aids/CPR equipment, fire extinguishers, shovels, etc.) necessary to perform their work assignments. In cases such as this, we question the advisability insurability of requiring employees to carry such equipment in their private vehicles.

A good number of vehicles are equipped with two-way ratios.

The Department has made a concerted effort to locate its field offices/field personnel closer to their respective areas of coverage so as to reduce the miles traveled by DEP personnel to perform required inspections.

Field personnel often drive to areas where the roads are unpaved and where off-road travel can be hazardous.

For some of the work performed, the Department believes it important that staff operate vehicles that are clearly identifiable to the public as state-vehicles (e.g. state plates & decals).
Accordingly, while the department will continue to consider all factors that go into determining vehicle assignments, vehicle resources must be readily available in order for DEP to conduct its business. Thus, determining need by simply applying mileage criteria does not take into account other important factors.

I believe we have demonstrated good faith by reducing our fleet and continually assessing our needs. At this point, I feel strongly that any further reductions would be counter-productive to completing our mission.

**State Grant and Loan Compliance Testing**

We have shared this finding and corresponding recommendation with management of the Green Acres Program. As a follow-up, we will ensure future compliance with the provisions of CL935.

In closing, the Department is pleased with the conclusion that our financial transactions were properly executed and recorded. In addition, I thank you for the opportunity to express our views on the remaining issues, even though we do not share similar opinions given our experiences and responsibilities.

Sincerely,

[Signature]

Robert C. Shinn, Jr.
Commissioner