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

Department of Law and Public Safety
Office of the Attorney General and
Selected Organizations

July 1, 2002 to August 12, 2004

Richard L. Fair
State Auditor
The Honorable Richard J. Codey  
Acting Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Albio Sires  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of Law and Public Safety, Office of the Attorney General and Selected Organizations for the period July 1, 2002 to August 12, 2004. If you would like a personal briefing, please call me at (609) 292-3700.

December 20, 2004
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Department of Law and Public Safety  
Office of the Attorney General and Selected Organizations

**Scope**

We have completed an audit of the Department of Law and Public Safety, Office of the Attorney General and Selected Organizations for the period July 1, 2002 to August 12, 2004. Our audit included the financial activities accounted for in the state’s General Fund for the Office of the Attorney General, Division of Election Management and Coordination, and the State Athletic Control Board. In addition, we included the financial activities of the Election Law Enforcement Commission, Victims of Crimes Compensation Board, and the Executive Commission on Ethical Standards which are considered in but not of the Office of the Attorney General. The prime responsibility of the Attorney General, as the head of the Department of Law and Public Safety, is the administration of all the Department of Law and Public Safety’s divisions. The prime responsibilities of the selected organizations are: management of the election process; regulation and supervision of combative sporting events including licensing participants and adjudication of disputes; administration and enforcement of the New Jersey Campaign Contributions and Expenditure Reporting Act; providing assistance to victims of violent crimes; and implementation of the New Jersey Conflict of Interest law. Annual expenditures and revenues for the selected organizations within the Office of the Attorney General during the audit period were $28 million and $31 million, respectively. The primary source of revenues was federal grants. The independent commissions included as part of this engagement had combined annual expenditures and revenues of $21 million and $13 million, respectively. The primary source of their revenues were license and registration fees, surcharges on sales at penal institutions, court imposed penalties, and fines.
Objectives

The objectives of our audit were to determine whether financial transactions were related to the selected organizations’ activities, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report. The 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 reports, we identified corrective action, if any, taken by the department and walked through the system to determine if the corrective action was effective.

Conclusions

We found the financial transactions included in our testing were related to the selected organizations’ activities, were reasonable, and were recorded
properly in the accounting systems. We found that the agency has resolved the significant issues noted in our prior report. In making these determinations, we noted certain internal control weaknesses and matters of compliance with procedures and regulations involving the purchasing function at the Election Law Enforcement Commission and the Executive Commission on Ethical Standards meriting management’s attention.
Purchasing procedures should be followed.

Purchasing Controls

The Election Law Enforcement Commission was created to administer the New Jersey Campaign Contributions and Expenditures Reporting Act. The annual nonpayroll expenditures of the Commission were $750,000. The Executive Commission on Ethical Standards was established to implement the New Jersey Conflicts of Interest Laws. Annual non-payroll expenditures of this commission were $27,000. Our review and testing of expenditures noted deficiencies in the controls over procurement.

Controls Over Authorizations

The procurement process includes controls to segregate duties through the use of multiple levels of authorization which reduces the risk of misappropriation of assets. This control is being circumvented through the sharing of passwords at the Election Law Enforcement Commission. The commission has 46 employees but only two of these employees are involved in the procurement process. We noted that on days when either employee was absent from work, transactions containing their approvals were still processed. In another test of controls over procurement we reviewed 144 transactions totaling $570,000 which utilized the Management Acquisition Control System - Enhanced (MACS-e). Ninety-seven percent of these transactions were created, processed, and approved for payment by one employee. Both of these situations indicated a lack of segregation of duties.

The Executive Commission on Ethical Standards has nine employees, three of which have accounting system approval authority. However, 14 of 15 payment vouchers selected for testing had one employee applying all approvals. This indicates a lack of segregation of duties.
Use of Direct Purchasing Authorizations (DPAs)

Department of the Treasury, Circular Letter 00-13-DPP details the requirements of each agency regarding procurement of goods and services. These requirements specify that an agency must initially determine that the item or service is not available through a state contract, the State Distribution and Support Services Center (DSS), the Bureau of State Use Industries (Deptcor) or Central non-profit agency (C.N.A.). Our sample testing of 89 DPAs totaling $55,300 processed by the Election Law Enforcement Commission noted that the commission made DPA purchases from a vendor who had a state contract. This resulted in the state paying retail prices rather than the discounted state contract price. Additionally, we noted purchases of toner cartridges which are not available under state contract, and competitive prices were not obtained. Furthermore, we found that the commission split the purchase orders for toner into multiple vouchers in order to circumvent the procurement guidelines. A comparison of prices obtained from other vendors indicated that the commission paid $60 to $100 more per item, and therefore incurred an additional $7,000 for 13 purchases of toner cartridges. The failure of the commission personnel to comply with the circular letter’s intent reduces the ability of the commission to obtain necessary goods and services at the best prices to achieve their objectives.

We tested 17 purchases by the Executive Commission on Ethical Standards. We found that ten of these were purchased using DPAs and were for office supplies available through state contracts. This also indicates non-compliance with Circular Letter 00-13-DPP.

Reasonableness of Expenditures

Our testing of purchases made by the Election Law Enforcement Commission during our audit period noted 85 transactions from one vendor which totaled
Commission supporting documentation justified these purchases as “emergency”. We questioned the emergency justification of these purchases as well as their appropriateness. In addition to office supplies, items purchased included assorted clocks (wall, desktop some with cd players or other options), personal finance books, magazines, decorator stationary, gift wrapping paper, cookies, candy, cereal bars, cordless sweeper, wallet, portfolios, candles, lamps, a toaster oven and other coffee room supplies which we considered excessive. All these “emergency” items used the Commission’s purchase request forms; however, they contained the identical justifications, and appeared to be pre-signed and pre-stamped as completed. We additionally noted that the employee making these purchases was reimbursed for mileage, including trips made on weekends; and the employee was reimbursed for 52 trips from July to November 2003, which exceeded the number of payments to that vendor. Commission personnel have a fiduciary responsibility to safeguard state assets from misuse. The reasonableness of these transactions indicates administration over these assets needs to be strengthened.

**Recommendation**

We recommend that the commissions review their system of internal controls over expenditures to reduce the risk of misuse. The commissions should establish proper segregation of duties, comply with procurement circular letters, and review expenditures for reasonableness. If personnel are not available to achieve these objectives, the commissions should investigate combining their administrative functions as has been previously done in other units within the Department of Law and Public Safety.
TO: Carl Wyhope, Director
Internal Controls
Office of the Attorney General

FROM: Jeanne A. Mayer
Deputy Director

SUBJECT: OLS Audit Report Response

December 7, 2004

In response to the recent audit by the Office of Legislative Services, the following matters have been addressed.

In response to the comment regarding the lack of segregation of duties in connection with accounting systems approval authority, we have taken steps to correct this situation. The Commission recently hired a new employee who is being trained on the CFS/MACS-E Systems. In addition, all employees with approval authority have been made aware of the importance of segregating the purchasing responsibilities. This is sometimes difficult with a staff of only nine employees.

In response to the comment regarding non-compliance with Circular Letter 00-13DPP, we have taken steps to correct this situation. All employees with purchasing authority have been made aware of the necessity of initially determining whether the item or service is available through a State contract, the State Distribution and Support Center, the Bureau of State Use Industries, or Central non-profit agency. The office supplies in question were apparently purchased from a State vendor; however, the vendor did not have the contract for the particular office supplies in question. It should be noted that all purchase orders are signed by the Executive or Deputy Directors to ensure that only necessary items are ordered and that all items are received.

All future purchases will be in compliance with Circular Letter 00-13DPP.

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auditreport2004.doc
Mr. Richard L. Fair
State Auditor
Office of the State Auditor
P.O. Box 067
Trenton, NJ 08625-0067

Dear Mr. Fair:

This letter is in response to the audit report prepared by the Office of Legislative Services, Office of the State Auditor for the period of July 1, 2002 to August 12, 2004 as it relates to the New Jersey Election Law Enforcement Commission. The Commission is "in but not of" the Department of Law and Public Safety. The Department has no administrative responsibility or control over the Commission. All purchasing, fiscal, payroll, and personnel functions are under the Commission’s staff responsibilities.

On page four of the report, the auditors cite problems with the segregation of duties in the fiscal area. Due to the size of the agency (45 at the time of the audit), only six staff members were assigned to the Administration Section: a Director, one Fiscal Officer, one Personnel Officer, two receptionists, and one Senior Clerk. Only the Fiscal Officer and the Director have access to the New Jersey Comprehensive Financial System (NCFS). It is the Commission’s intention to hire a Purchasing Assistant in the near future in order to provide for another level of separation between the necessary functions in the fiscal area. The Commission was given a supplemental appropriation of $2 million in August 2004 in order to implement a package of 17 new laws. In order to accomplish the task of implementing these laws, 36 new positions have been requested from the Department of Personnel, five of which will be assigned to the Administration Section. The positions assigned to the Administration Section include a Purchasing Assistant, a Personnel Assistant, and three Principal Clerks. These new hires will help to relieve the workload of the current fiscal officer and allow for better separation of duties.
On page five, the use of Direct Purchase Authorizations (DPA's) was discussed. In a few cases, certain supplies were purchased at retail price rather than at the State contract price. These items were purchased at the same time other items that were not on State contract were purchased but were needed on an emergent basis. Toner cartridges were purchased at the lowest cost available at the time. Staff was reminded, however, in keeping records on comparison of prices from other vendors. Staff was told the importance of keeping such records, and this practice will be implemented in the near future. It is also stated that staff split purchase orders in order to circumvent the procurement guidelines. Purchase orders were not split in order to circumvent procurement guidelines. Rather, orders were processed by section. Six sections make up the Commission: Administration, Computer, Legal, Review and Investigation, Compliance, and Public Financing. It has been the policy to process orders by section. Therefore, toners were purchased according to the requests from each section.

On page six, the reasonableness of expenditures was cited. Several of the items noted were for use in ELEC's kitchen facilities. ELEC does not have a cafeteria facility in its building and therefore has a small kitchen on each of its floors (12, 13, and 14). Small kitchen appliances are allowed for use in these rooms. In terms of clocks and lamps, ELEC believes that these items are necessary for staff use. The Administrative office maintains a supply of these items in the event of breakage and for use by new staff. A small number of these items are kept in the supply closet, so that staff is not burdened with the task of constantly ordering such items. In addition, the number of trips to vendors in relation to invoices was noted by audit staff. It is necessary, at times, to make several trips to a vendor. Several trips were necessary because items may have been defective and in need of return. Further, staff may have been asked to inquire as to whether or not the vendor had a requested item in stock. The Fiscal Officer only makes trips to vendors when it is absolutely necessary. In addition, the Commission does not have a State car, so the Fiscal Officer must use her own car to pick up supplies for the agency. This situation has resulted in the fact that ELEC must provide mileage reimbursement. Larger agencies are not confronted with this problem and are not subject to reimbursement of mileage for item pickup.

In conclusion, ELEC will be making changes regarding separation of duties once new staff is hired. Staff will document all purchases made through the DPA process that requires three bids to be obtained. Supplies will be kept at a reasonable minimum and trips to vendors will continue to be kept at an absolute minimum.

Staff appreciates the suggestions on how to better implement internal controls and hopes to implement these internal controls as soon as possible.

Sincerely,

[Signature]

Frederick M. Herrmanns Ph.D.
Executive Director