DEPARTMENT OF LAW AND PUBLIC
SAFETY
SELECTED PROGRAMS

July 1, 1995 to April 29, 1997
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Enclosed is our report on the audit of the Department of Law and Public Safety, Selected Programs for the period July 1, 1995 to April 29, 1997.

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

Richard L. Fair  
State Auditor  
June 10, 1997
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Department of Law and Public Safety
Selected Programs

Scope
We have completed an audit of the Department of Law and Public Safety, Selected Programs for the period July 1, 1995 to April 29, 1997. Our audit included financial activities of the Office of the Attorney General, the Seized and Forfeited Property Program, the Violent Crimes Compensation Board, the State Athletic Control Board, the Executive Commission on Ethical Standards, and the Election Law Enforcement Commission, are accounted for in the state’s General Fund.

Total expenditures of the agency during the 22 month audit period were approximately $128 million. Revenues approximated $69 million during our audit period and the major components of revenue were seized and forfeited property and fees.

Objectives
The objectives of our audit were to determine whether financial transactions were related to the agencies’ 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 agencies. 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. Transactions were judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the agencies 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 agencies’ programs, were reasonable and were recorded properly in the accounting systems. We also found that the agencies have resolved the significant issues noted in our prior report except for matters related to the proper utilization of receiving reports and allocating salary costs of the purchasing and accounting functions to the State Athletic Control Board. These issues have been updated and restated in our current report.

Details of our findings and recommendations follow.
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trengthening the purchasing and receiving functions would increase administrative effectiveness.

Purchasing and Receiving

We reviewed the procedures used to acquire goods and services under the Seized and Forfeited Property Program and found the Division of Criminal Justice does not contact state supply sources prior to purchasing from outside vendors. The division uses its Delegated Purchase Authority (DPA) to purchase goods from state approved contract vendors. Circular Letter 96-23G issued by the Department of the Treasury requires agencies to contact the Distribution Center or DeptCor and purchase from them if the goods are stocked by those agencies and available. Failing to utilize state sources increases the state’s overall cost in procuring such items due to the loss of bulk discounts.

When purchases are made, the Division of Criminal Justice does not predicate payments to vendors by a signed report indicating the goods have been received. Internal control is strengthened by requiring a receiving report including a description and count of items received be matched to a purchase order and an invoice prior to issuing a payment for those goods.

Additionally, in our prior audit report, we noted the administrative offices of the department were preparing receiving reports which were prepared at the same time and contained the same information as purchase orders. However, these were not being used to verify goods actually received. Although they were used to support the payments, there is no indication that items were received, counted or compared to actual vendor invoices before payments were made. Failing to ascertain that goods have been received before making payments could result in payment for items not received or receipt of lesser quality items than were ordered. In its response to our report, the Office of the Attorney General indicated it would change the system to allow for receipt verification prior to authorizing payments to vendors. Our current tests indicate this has not been done.
Recommendation

We recommend the department amend its purchasing procedures to comply with Treasury Circular Letter 96-23G and purchase from state operated supply agencies when applicable. We also recommend that receiving reports be used to verify the actual receipt of goods and that they be compared to both purchase orders and vendor invoices before authorizing payments to vendors.

 Allocation of Salary Costs

The State Athletic Control Board should bear the costs of its administrative functions.

In our previous audit report, we noted that salaries of persons working within the Office of the Attorney General were charged to various divisions within the department. During our current audit, we noted the Division of Gaming Enforcement (DGE) performs purchasing and accounting functions for the State Athletic Control Board (SACB). Employee time and effort is required to perform these functions. There are no reimbursements being made by the SACB to the DGE to allocate these costs between the two agencies. In reviewing prior years’ financial data, such reimbursements were made annually. In fiscal year 1995 and later, no such cost allocations have been made. Failure to allocate these costs resulted in SACB operations being charged to the casino industry which funds DGE. We estimate these costs to be $100,000 per year.

Recommendation

We repeat our recommendation that the salaries of employees be accurately allocated among the agencies receiving their services.
Richard L. Fair State Auditor  
Office of Legislative Services  
CN067  
Trenton, NJ 08625-0067  

Re: Audit Report Department of Law and Public Safety - Selected Programs July 1, 1995 to April 29, 1997

Dear Mr. Fair:

Thank you for a copy of your report of an audit of the Department of Law and Public Safety Selected Programs for the period July 1, 1995 to April 29, 1997. I would like to take advantage of the opportunity offered in Assistant State Auditor Guilfoyle's covering correspondence to provide a response to the report. The following comments are referenced to the headings of the findings contained in your audit report.

Purchasing and Receiving

The first paragraph of this finding indicates that the Division of Criminal Justice (DCJ) did not contact the State Distribution Center or DeptCor when making purchases under the Seized and Forfeited Property Program. This statement is accurate. However, the forfeiture appropriation accounts which the audit reviewed allocated resources for such items is computers, storage space, vehicle repairs and confidential fund expenditures. These commodities are not available from the named State procurement sources. Otherwise, the DCJ does contact and utilize the Distribution Center and DeptCor.

With respect to the finding concerning the administrative offices of the Department, it should be noted that after the last audit, Office of the Attorney General (OAG) - Data Processing and Facilities Service, (DP&FS) did revise its receiving forms and such forms are used to verify the receipt of goods as ordered. However, the current audit finds that "there is no indication that items were received, counted or compared to actual vendor invoices before payments were made." OAG DP&FS will revise its procedures to more clearly document its comparison of items received to purchase orders and vendor invoices.

Allocation of Salary Costs

The audit concludes that, "the State Athletic Control Board (SACB) should bear the costs of its administrative functions," indicating that the SACB should reimburse the Division of Gaming Enforcement (DGE) for purchasing and accounting functions performed. The Department does not dispute that in certain cases it would be appropriate for the SACB to reimburse the DGE for support services. However, the Department respectfully disagrees that the margin statement in the audit report, quoted above, is universally
true. The Department understands that the audit extrapolated a $19,000 charge from the DGE which was reversed by the Department, to estimate a support cost of $100,000 per year. One of the reasons for the executive reorganization which placed the SACB in the DGE was the prevalence of boxing matches within the casino industry. On average, most of the work of the SACB is devoted to the casino industry and is not directly charged to the casino industry. Therefore, absent some extraordinary expense unrelated to the casino industry, the Department views the support services provided by the DGE to the SACB to approximate SACB's role in the casino industry and appropriate to be expended by the DGE. It should be emphasized that under the executive reorganization mentioned, the SACB is administratively a part of the DGE.

As has always been the case, your audit staff has displayed the highest professionalism and I would like to express my appreciation for their positive efforts particularly for their constructive suggestions on matters unrelated to the audit findings.

Sincerely,

Thomas J. O'Reilly
Administrator

TJO:CAW:cja
c Attorney General Verniero
   First Assistant Attorney General Mintz
IC 96-24