Department of Law and Public Safety
Division on Civil Rights
Office of Highway Traffic Safety
Division of Alcoholic Beverage Control
New Jersey Racing Commission

July 1, 2000 to April 30, 2002

Richard L. Fair
State Auditor
Enclosed is our report on the audit of the Department of Law and Public Safety, Division on Civil Rights, Office of Highway Traffic Safety, Division of Alcoholic Beverage Control, and the New Jersey Racing Commission for the period July 1, 2000 to April 30, 2002. If you would like a personal briefing, please call me at (609) 292-3700.

September 16, 2002
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Scope

We have completed an audit of the Department of Law and Public Safety, Division on Civil Rights, Office of Highway Traffic Safety, Division of Alcoholic Beverage Control and the New Jersey Racing Commission for the period July 1, 2000 to April 30, 2002. Our audit included financial activities accounted for in the state’s General Fund, the Casino Simulcasting Fund, the Casino Simulcasting Special Fund and the Horse Racing Injury Compensation Fund.

Annual appropriations totaled approximately $7 million. Annual expenditures and revenues were $40 million and $30 million, respectively. The prime responsibilities of the organizations included in this engagement are administering and enforcing the Law Against Discrimination and the Family Leave Act; planning and coordinating programs to reduce injuries and fatalities incurred on state highways; regulating and controlling the manufacture, possession, storage, sale, transportation, use and disposition of alcoholic beverages; and regulating the state’s horse racing industry.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the organizations’ programs, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior reports.
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 codes, circular letters promulgated by the State Comptroller, and policies of the organizations. 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 report, we identified corrective action taken, if any, by the organizations 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 organizations’ programs, were reasonable, and were properly recorded in the accounting systems. In making this determination, we noted a new internal control weakness meriting management’s attention. We also
found that the organizations have resolved two of the five significant issues noted in our prior reports. Those issues not resolved have been updated and restated.
Internal controls over the payroll function should be strengthened.

Time and Attendance Records

In 1997, the Consolidated Administrative Support Services (CASS) unit was formed within the Department of Law and Public Safety. This unit’s chief responsibility is to handle payroll, fiscal and personnel functions for the four divisions included within our scope.

The prior audit of the New Jersey Racing Commission noted four issues related to controls over time and attendance records. Our current audit included a review of these issues as they relate to the commission and the other three divisions for which CASS performs administrative functions. Issues relating to overtime authorization and segregation of duties regarding Time and Leave Reporting System (TALRS) postings were adequately addressed. However, our tests indicated the need to strengthen internal controls for the remaining two issues involving the approval and accuracy of time sheets.

The prior audit noted 36 percent of sampled time sheets had no supervisory approval. Our current review of 241 time sheets indicated significant improvement in that five percent lacked supervisory approval. However, without these approvals the reliability of the information reported on the time sheet is reduced.

Our current audit also noted exceptions regarding the compensatory leave records of New Jersey Racing Commission employees. Testing of the compensatory time earned and used revealed 11 errors in a sample of 20 balances reviewed. A lack of written policies and procedures addressing items such as time reporting, compensatory time and hours of work contributed to the problems faced by those employees whose duties include checking time records for accuracy, completeness and posting to TALRS.
**Recommendation**

We again recommend that management establish and effective system of internal control which provides for the supervisory review and approval of time and attendance records. We further recommend that management formalize policies and procedures regarding time reporting and compensatory time.

**Auditee’s Response**

Time sheets for the New Jersey Racing Commission have been modified to include a signature line for supervisors. Additionally, forms for requesting leave time have been implemented that include supervisory authorization. CASS is currently working with the Racing Commission to further develop procedures for approval of time and leave and in formalizing policies regarding time and attendance.

CASS is assisting the Racing Commission in formalizing a policy regarding compensatory time. Applicable contractual provisions and Department of Personnel regulations are currently being reviewed.

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**Purchasing Process**

There should be proper segregation of duties for the purchasing process.

The prior audit of the New Jersey Racing Commission (NJRC) noted that one employee in the CASS unit has the capability to perform purchasing and disbursement functions. This individual could issue purchase orders, receive goods and process the payment. As a result, there is an increased risk that errors or irregularities may go undetected. Since the previous audit was conducted, three additional individuals have been added to the CASS unit and a change was made to reduce the employee’s general accounting group approval level. However, the employee’s approval level for the state’s computerized purchasing system remains unchanged at this time and it is that level which presents the internal control weakness.
**Recommendation**

We recommend that the department segregate duties over the purchasing function and limit the approval level for the state’s computerized purchasing system to ensure that no individual can approve the entire purchasing process.

**Auditee’s Response**

In reference to the need for further segregation of duties within the purchasing process, the Departmental contact for CASS has been instructed to remove the ability for the one individual to process purchase orders. This individual will only have the ability to perform payment transactions.

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**Multiple Dwelling Reporting Rule**

N.J.A.C. 13:10-2.2 states that the owner or owners of every multiple apartment development which has 25 units or more shall file an annual report with the Division on Civil Rights concerning the racial/ethnic composition of the multiple dwelling, whether any of its buildings or developments are barrier free (accessible to the disabled), and factors affecting its composition. Owners failing to file these reports are subject to a penalty.

Our previous audit noted weaknesses in the internal controls over this required report and penalty collections. Since the prior audit we noted improvements. However, the following weaknesses were still evident.

- There is no system in place to ensure that all required owners are reporting. During our review of controls we identified multiple dwelling complexes not included in the database.

- One division employee maintains the subsidiary records of reports due and reports filed. This employee also prepares and mails penalty letters and receives penalty payments remitted by
owners. This is an inadequate segregation of duties. Since our prior audit an assistant was assigned to this area, but duties still have not been adequately segregated.

An adequate system of internal control would provide management assurance that owners’ reporting requirements are monitored and penalty receipts are properly safeguarded.

**Recommendation**

We recommend the division establish procedures to enhance the database to include all multiple dwellings subject to the law and segregate duties over the penalty processing and receipt functions.

**Auditee’s Response**

The CASS unit will establish written procedures for assessing, receiving, depositing and tracking multiple dwelling penalties which are subject to the law and separate the duties of the penalty processing and receipt functions. CASS will also establish an Accounts Receivable Aging Report to monitor outstanding penalties and the status of the cases.