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

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

July 1, 2005 to December 31, 2007

Richard L. Fair
State Auditor
The Honorable Jon S. Corzine  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
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, Division on Civil Rights, Division of Highway Traffic Safety, Division of Alcoholic Beverage Control, and the New Jersey Racing Commission for the period of July 1, 2005 to December 31, 2007. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
March 20, 2008
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Department of Law and Public Safety  
Division on Civil Rights  
Division of Highway Traffic Safety  
Division of Alcoholic Beverage Control  
New Jersey Racing Commission  

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, 2005 to December 31, 2007. Our audit included financial activities accounted for in the state's General Fund, the Casino Simulcasting Fund, the Casino Simulcasting Special Fund, the Horse Racing Injury Compensation Fund, and the New Jersey Racing Industry Special Fund.

Annual appropriations totaled approximately $7 million. Average annual expenditures and revenues were $47 million and $43 million, respectively. The primary 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 report dated September 16, 2002.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State
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 Department of the Treasury, and policies of the organizations included in our audit scope. 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 certain internal control weaknesses and matters of compliance with laws and regulations meritng management’s attention. We also found that the organizations have resolved the significant issues noted in our prior report except for the matter related to the Multiple
Dwelling Reporting Rule involving the Division on Civil Rights. This issue has been updated and restated in our current report.
A review of the licensing and case management system project is needed to ensure that state funds are not wasted.

The Division of Alcoholic Beverage Control (ABC) is comprised of three bureaus: Licensing, Regulatory, and Enforcement. The division determined that the existing licensing and case management systems no longer met their needs. In order to prepare for a new system, a detailed feasibility study was performed to establish required system features and a Request for Quote (RFQ) was issued in February 2005 to solicit proposals from qualified bidders for an integrated licensing and case management system which would serve the needs of all three bureaus. A private consulting firm was hired to assist in selecting software manufacturers and managing the project. Since these products are integrated suites, a limited competition waiver of advertising was pre-authorized by the Purchase Bureau to solicit proposals from qualified bidders for an integrated licensing, financial, and case management system to replace the existing systems at ABC.

In April 2005 a four-member evaluation committee with representatives from ABC, the Office of the Attorney General, and the independent consultant was established to review the bids received. The committee determined that a particular vendor was the most responsive to ABC defined requirements, received the highest technical score, and was awarded the contract at a cost of $1,089,000. The implementation was to take nine months and be completed by December 2005. More than two years later the system has not been successfully implemented. The software package presented by the vendor was a commercial off-the-shelf solution with a limited number of customizations to deal with ABC specific needs. ABC management has had various issues with the functionality of the system, its
ease of use, and configuration problems. The current data entry procedures are not functional and a large number of enhancements need to be implemented in order to tailor the software to the division’s requirements. The vendor invited ABC to negotiate a new project budget and schedule based on the amended scope. However, no agreement has been reached as to how much additional funds will be needed to complete the project. Cumulative payments to the vendor for the implementation of the software totaled $498,500 and the project consultant received $148,000. Currently the project is stalled and ABC management has no confidence in the vendor’s ability to complete the project.

**Recommendation**

We recommend that the division make a determination as to whether legal recourse could be pursued against the vendor and/or consultant. The division should also consult with the state’s Office of Information Technology and the Purchase Bureau, and determine an appropriate course of action in obtaining a workable system while considering the efficient use of state resources.

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**Revenue Collection Procedures**

The Division of Alcoholic Beverage Control (ABC) collects revenue from license fees and penalties from establishments that manufacture, distribute, and sell alcoholic beverages. All retail licenses must be renewed annually. The governing body or local ABC board issuing the retail licenses establish their time schedules for filing the renewal applications prior to July 1st of each year so that the renewals can be acted upon and approved by that date. If the license renewal
is not approved by municipal resolution by this date, all alcoholic beverage activity on the licensed premises must cease unless an "Ad Interim" permit is obtained. The permit fee is $75.00 plus a fee of $5.00 per day for the requested period, and is payable by cash, check, or money order to ABC. We obtained a listing of all cash transactions for "Ad Interim" permits issued between June 22, 2007 and July 6, 2007, and noted that manual receipts were completed for only 11 of 213 transactions. In addition, we noted that the total daily deposit and New Jersey Comprehensive Financial System (NJCFS) amount was $3000 greater than the amount entered into the ABC licensing system for eight of the ten sampled days. Failure to perform reconciliations between the permit and revenue units weakens the internal controls and increases the risk of loss or improper recording of monies.

During fiscal years 2006 and 2007 the division collected $21.7 million in revenue. We noted that during the period approximately $11.7 million was posted to NJCFS ten or more days after the deposit date. Four transactions totaling $451,000 were posted more than 48 days after the deposit date. Treasury Circular Letter states that entries of revenues into the state financial system are to have dates that are consistent with the actual bank credit date to the state bank account.

**Recommendation**

We recommend that the division reconcile their internal records with NJCFS and post revenue in accordance with established requirements. In addition, the division should reconcile all cash transactions with permits issued.
Special Revenue Funds

The New Jersey Racing Commission (Commission) maintains four special revenue funds. There is one individual responsible for the day-to-day operations of the Horse Racing Injury Compensation Fund and one individual responsible for the day-to-day operations of the New Jersey Racing Industry Special Fund, Casino Simulcasting Fund, and Casino Simulcasting Special Fund. No written policies and procedures exist that would provide for continuity and effective operations in the event of employee absence or turnover. An operations manual can save time that could otherwise be wasted on mishandled procedures and/or transactions.

Recommendation

We recommend that the Commission develop an operations manual for its special revenue funds. The manual should present clear procedures and timing of all related transactions.

fund transactions need to be processed properly on the state accounting system.

New Jersey Racing Industry Special Fund

The New Jersey Racing Industry Special Fund was established in 2001 to provide funding for racing costs and prevention, education, and treatment programs for compulsive gamblers. In regards to the racing costs, the Commission is generating checks from the special fund made payable to the Commission, and depositing the checks into a General Fund account. By processing transactions in this manner the New Jersey Comprehensive Financial System is double counting revenue and expenditures between the two funds instead of an interfund transfer activity.
Recommendation

We recommend that the Commission consult with the Department of the Treasury on the proper way to process these transactions.

Internal controls over multiple dwelling reporting and penalty collection should be improved.

Multiple Dwelling Reporting Rule

The Multiple Dwelling Reporting Rule requires the owner of every multiple apartment dwelling which has at least 25 units to file an annual report with the Division on Civil Rights concerning the racial/ethnic designation of the leaseholders and applicants, 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 current review indicates that the weaknesses noted in our prior two reports regarding the internal control over this required report and penalty collections were not addressed. No system is in place to ensure that all required owners are reporting and duties of the penalty processing and receipt functions continue to be performed by one individual.

Recommendation

We recommend the division establish procedures to ensure that the database include all multiple dwellings subject to the law and duties over the penalty processing and receipt functions be performed by different individuals.
March 7, 2008

Stephen M. Eells, Assistant State Auditor
Office of Legislative Services
Office of the State Auditor
125 S. Warren Street, PO Box 067
Trenton, New Jersey 08625-0067

Dear Mr. Eells:

Enclosed is the corrective action plan to the audit report of the Department of Law and Public Safety, Division on Civil Rights, Division of Highway Traffic Safety, Division of Alcoholic Beverage Control, and the New Jersey Racing Commission.

Please include this document with your release of the audit to the Governor and the Legislature.

Very truly yours,

Kimberly S. Ricketts,
Administrator

KSR:RWK:sc
Enclosure

c: J. Frank Vespa·Papaleo, Esq., Director, Division on Civil Rights
Pam Fischer, Director, Division of Highway Traffic Safety
Jerry Fischer, Director, Division of Alcoholic Beverage Control
Frank Zanzuccki, Executive Director, New Jersey Racing Commission
Ronald Kraemer, Deputy Director, Office of the Attorney General
Carl Wyhopen, Deputy Attorney General, Office of the Attorney General
Patti Valsac, Administrative Analyst, Consolidated Administrative Support Services
Division of Alcoholic Beverage Control

Licensing and Case Management System

**OLS State Auditor**

**Recommendation**

We recommend that the division make a determination as to whether legal recourse could be pursued against the vendor and/or consultant. The division should also consult with the state’s Office of Information Technology and the Purchase Bureau, and determine an appropriate course of action in obtaining a workable system while considering the efficient use of state resources.

**Law & Public Safety**

**Management Response**

The Department is in agreement with the findings and is currently proceeding with a formal complaint to be filed with the NJ Division of Purchase and Property, Contract Compliance and Administration Unit.

**Revenue Collection Procedures**

**OLS State Auditor**

**Recommendation**

We recommend that the division reconcile their internal records with NJCFS and post revenue in accordance with established requirements. In addition, the division should reconcile all cash transactions with permits issued.

**Law & Public Safety**

**Management Response**

The accepting of cash provides the ABC the flexibility to complete licensing renewals without having to deal with the numerous bounced checks and non-payments that occur. The ABC initiated new procedures that have segregated the duties of the individual collecting the cash and writing the receipt from the individual depositing and recording the funds.

The ABC has started maintaining a receipt log and reconciling it monthly against NJCFS. The ABC is planning to prepare written procedures that reflect the entire process including these new initiatives.
New Jersey Racing Commission

Special Revenue Funds

**OLS State Auditor**
**Recommendation**

We recommend that the Commission develop an operations manual for its special revenue funds. The manual should present clear procedures and timing of all related transactions.

**Law & Public Safety**
**Management Response**

Recommendation was made to develop an operations manual which should present clear procedures and timing of all related transactions for the Commission’s special revenue funds. The need for a procedure manual had been a subject of discussion between the Commission and Consolidated Administrative Support Services (CASS) employees and targeted for development. The appropriate personnel from the CASS Unit and the Racing Commission will work jointly to compile an operations manual detailing the procedures in handling each of the four (4) special revenue funds: Horse Racing Injury Compensation Fund, New Jersey Racing Industry Special Fund, Casino Simulcasting Fund, and Casino Simulcasting Special Fund.

New Jersey Racing Industry Special Fund

**OLS State Auditor**
**Recommendation**

We recommend that the Commission consult with the Department of the Treasury on the proper way to process these transactions.

**Law & Public Safety**
**Management Response**

Recommendation was made for the Commission to consult with the Department of Treasury on the proper way to process transactions through the New Jersey Racing Industry Special Fund.

The Commission will request a consultation with the Department of Treasury to consider improvements to the way these accounts were initially established on the New Jersey Comprehensive Financial System (NJCFS) and how they currently operate in an effort to ensure the proper processing of required transactions. The
consultation shall include participation by all appropriate personnel from CASS and Racing who process transactions through this account for the purpose of ensuring the account structure contains the functionality and manageability required by all users. This review will also be the necessary first step before any procedure manual can be compiled for the New Jersey Industry Special Fund as recommended above.

Division on Civil Rights

Multiple Dwelling Report Rule

OLS State Auditor
Recommendation

We recommend the division establish procedures to ensure that the database include all multiple dwellings subject to the law and duties over the penalty processing and receipt functions be performed by different individuals.

Law & Public Safety
Management Response

With regard to the Auditor's concern that there is no system in place to ensure that all owners subject to the MDRR are reporting as required, the DCR respectfully responds that it contacted all tax assessors in each municipality in the state throughout the audit period to ensure that the MDRR database was complete. This initiative resulted in the discovery of over 250 owners subject to the MDRR that were not previously captured in DCR's database, increasing the number of owners in our database from under 3000 to the current 3232. DCR will continue its relationships with local tax assessors, as well as with the Department of Community Affairs and the New Jersey Apartment Association, as additional failsafes, to ensure that all multiple dwelling owners subject to the rule are captured in its database. The procedures outlined above will be drafted and formalized as standard operating procedure by DCR.

With regard to bifurcating the penalty and receipt processing functions recommended by the Auditor, DCR respectfully responds that two employees have been a part of the penalty and receipt processing functions throughout the audit period, though no formal procedure for division of these functions has been implemented. Due to staffing shortages and hiring freezes, DCR's efforts to provide further redundancies to these accounting functions have been unsuccessful. To address the Auditor's concern, the Division will immediately implement formal procedures to divide these functions as follows. First, the provision of penalty notices to delinquent owners will be performed solely by a specifically assigned DCR employee. The resolution of penalty-related disputes by owners will be performed solely by a second specifically assigned DCR employee. Finally, the
receipt of all penalty checks will be handled by an employee of the Consolidated Administrative Support Services (CASS), the fiscal arm of DCR. The procedures outlined above will be drafted and formalized as standard operating procedure by DCR.