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

Department of Transportation
Maintenance and Operations

July 1, 2005 to April 30, 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 Transportation, Maintenance and Operations for the period of July 1, 2005 to April 30, 2007. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells  
Assistant State Auditor  
August 22, 2007
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Department of Transportation
Maintenance and Operations

Scope

We have completed an audit of the Department of Transportation, Maintenance and Operations for the period July 1, 2005 to April 30, 2007. The audit included financial activities accounted for in the state's General Fund and the Special Transportation Fund. The primary responsibility of Maintenance and Operations is the maintenance of state roads, bridge and railroad properties, and ensuring safe and efficient movement of traffic. Total expenditures during fiscal year 2006 were $98 million, excluding payroll which was audited as part of a separate audit on the department's administration. Revenues for fiscal year 2006 were $5.3 million with the major component being highway permits. Outdoor Advertising was not included in our scope because the department's Internal Audit Unit was performing an audit of this revenue source.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the agency's 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 April 4, 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 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 Office of Management and Budget, 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 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. Transactions were judgmentally selected for testing.

To ascertain the status of findings included in our prior report, we identified corrective action taken by the department and walked through or performed tests on 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 agency’s programs, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses meriting management’s attention. We also found that the agency has not resolved the significant issues involving internal controls over inventories, preventative maintenance, and receipts noted in our prior report. These issues have been restated in our current report.
Compliance with Prior Report

Inventory Controls

Our prior report stated that the agency had not performed a physical inventory of vehicle parts, tools, and equipment at their 12 garages for several years. Our current review found that the inventory, which is valued at $1.7 million, is now maintained on the fleet management system. Due to staffing constraints recent physical counts were performed by employees involved in the day-to-day operations, and variances were not investigated or explained. Physical inventory counts should be performed by someone other than those responsible for maintaining the inventory. In addition, an analysis explaining variances between the physical counts and the records is a necessary internal control function in safeguarding assets.

Recommendation

We recommend the agency implement an inventory control process for the garages which would include periodic physical counts by employees not associated with the day-to-day operations. Discrepancies between the counts and records should be documented and resolved by management.

Preventative Maintenance

The department has an internal policy and procedures regarding the preventative maintenance for its vehicles. Timely preventative maintenance, which includes oil changes and annual servicing, increases a vehicle’s longevity and overall performance. Our prior audit report stated that 22 percent of the vehicles tested had not received any type of preventative
maintenance for the prior two years. For the current review we requested a report of vehicles overdue for their scheduled maintenance at the end of calendar year 2006. The report for light vehicles disclosed that 160 vehicles were more than three months overdue for an oil change and 34 of these were overdue more than a year. Ninety-six vehicles were more than three months past due for their annual service, and 17 of these were greater than one year overdue. Effective management oversight of agency staff to ensure vehicles are presented when scheduled for preventative maintenance would provide for the proper safeguarding of the vehicular assets. We found no evidence that employees were receiving any disciplinary action for not bringing their assigned vehicles in for scheduled preventative maintenance.

**Recommendation**

We recommend the department enforce its internal policy and procedure regarding preventative maintenance to ensure the safeguarding of vehicular assets and determine the appropriate disciplinary action for employees not complying with its regulations.

### Processing of Cash Receipts

The agency has several regional permit units that received highway permit fees of $2.7 million during fiscal year 2006 as part of their normal operations. Our review found these units still have one individual opening the mail, recording the receipt and maintaining the related documentation. The risk of errors and irregularities occurring is increased by the lack of segregation of duties. A proper system of internal control requires separating the receipt and recording functions. We also found that 165 of 170 reviewed deposits were not made timely in
accordance with Department of the Treasury Circular Letter 94-24-OMB requirements; averaging four days after receipt.

Recommendation

We recommend the regional permit units implement proper segregation of duties and deposit cash receipts in accordance with the Department of the Treasury Circular Letter 94-24-OMB.

Logo Sign Program

The department has two ten-year contracts for the administration of the Specific Service (LOGO) sign program and the Tourist Oriented Directional Signing program (TODS). The LOGO program provides for the installation and maintenance of signs along certain designated freeways and interstate highways. The sign structures are erected to provide identification and directional information to the traveling public for facilities offering services for gas, food, lodging, camping and attractions. The TODS program provides the business identification and directional information for any licensed commercial, recreational, cultural, historical, or educational activity whose major portion of visitors are derived from motorists not residing in the immediate area of the business or activity.

The LOGO contract stipulates that the contractor will pay the department in equal monthly amounts the greater of $200,000 annually or ten percent of the monthly gross income from the program, which during our audit period resulted in 12 monthly payments of $16,666.67. For the TODS program the payment is the greater of $120,000 annually or 20 percent of revenue, which during our audit period resulted in monthly payments of $10,000. The revenue amounts upon
which the payments are calculated are reported to the agency by the contractor. There is no independent verification of these revenue amounts. The contracts require that an annual report be submitted to the department which includes audited annual financial statements containing gross income and the related payments to the state. Although the agency is receiving the annual report, it is not receiving, nor had it requested, the audited annual financial statements prior to our review. The audited statements could provide support for the annual revenue reported by the contractor.

**Recommendation**

We recommend the agency request the contractor supply the independent audit report as required by the contract with a separate disclosure for New Jersey’s revenue portion.
August 20, 2007

Richard L. Fair, State Auditor  
Office of the State Auditor  
P.O.Box 67  
Trenton, NJ 08625-0067

Subject: New Jersey Department of Transportation  
Maintenance and Operations - OLS Audit (July 1, 2005 to April 30, 2007)  
Auditee Response to Audit Recommendations

Dear Mr. Fair:

Management staff of the New Jersey Department of Transportation (NJDOT) has completed a review and analysis of the “findings and recommendations” outlined in the Office of Legislative Services audit report referenced above. We agree to implement certain corrective actions to ensure the NJDOT is compliant in each business process identified in said audit report.

**Inventory Controls:** NJDOT Operations divisions responsible for garage inventory shall immediately develop an improved process to conduct physical counts of inventory in each garage facility on a monthly basis. Each inventory process will be planned to ensure inspection dates are scheduled randomly and conducted with employees not responsible for the daily operation of each stockroom. It should be noted that Operations conducted an inventory count in 11 regional garage stockrooms in April 2007.

**Preventive Maintenance:** NJDOT considers the requirement to comply with the current vehicle maintenance schedule provided by the FLEET Management System a mandatory responsibility to all employees assigned or responsible for a state vehicle(s). Once each month a FLEET management report (JOBFCSTBYDEPT) is forwarded to all managers with vehicle information for employees assigned or responsible for a state vehicle(s). This report identifies preventive maintenance schedules for “minor” and “major” tasks for each vehicle. Failure to comply can result in disciplinary action and/or termination of vehicle assignment.
The OLS audit of departmental compliance on preventive maintenance found that the majority of the 1254 NJDOT vehicles audited were in compliance with the PM schedules. However, there remains room for improvement with the goal of 100% compliance.

Minor PM- 78.2 % of units on schedule  
Major PM- 90.0 % of units on schedule

The establishment of a “formal” statewide policy on vehicle preventive maintenance and the ramifications for non-compliance is a subject the NJDOT agrees warrants discussion. This suggestion has also been tabled by the task group reviewing Governor Corzine’s “Greening the Vehicle Fleet” initiative.

**Processing of Cash Receipts:** To address the segregation of duties and comply with the timely deposit of permit fees, the NJDOT Operations Permits units will institute improvements to the current business process.

Each Regional Operation will designate a primary and secondary administrative employee to receive the permit fee mail (checks) on a daily basis and record the appropriate information on an AD-28. The respective Permits units will assign a primary staff member to be responsible for all deposits and the recording tasks associated with the deposit process. Deposits will be made each work day. All Permits Section supervisors and technicians have been designated as alternates to the primary individual responsible for permit fee deposits. Regional audits will be conducted by the Regional Maintenance Engineer and the Regional Director.

**LOGO Sign Program:** The Logo Sign program is administered by the Office of Outdoor Advertising Services (OOAS). Management of that unit concurs with the audit report recommendation that the contractor provides OOAS with an independent audit report verifying the amount of program revenue. OOAS has recently received from the contractor a verified financial statement which includes an independent auditor’s report. A copy of this report has been forwarded to the Office of the State Auditors (OSA). NJDOT and OSA will review the independent auditors report to determine if it is sufficient.

Sincerely,

Jeffrey J. Callahan  
Assistant Commissioner for Operations  
New Jersey Department of Transportation