Department of the Treasury
General Services Administration
Revolving Funds

July 1, 1994 to December 31, 1995
# State of New Jersey
# Department of the Treasury
# General Services Administration
# Revolving Funds

## Audit Report

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The Honorable Christine Todd Whitman  
Governor of New Jersey  

The Honorable Donald T. DiFrancesco  
President of the Senate  

The Honorable Jack Collins  
Speaker of the Assembly  

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services  

We have completed an audit of the Department of the Treasury, General Services Administration Revolving Funds for the period July 1, 1994 through December 31, 1995.  

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. However, we did note that the opportunity exists to improve the competitiveness of the Distribution Center by increasing its direct purchase authority and expanding its term contracts. Details of this and other findings and recommendations are included in our 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.  

Richard L. Fair  
State Auditor  
December 17, 1996
We have completed an audit of the Revolving Funds, administered by the Department of the Treasury, General Services Administration (GSA), for the period July 1, 1994 through December 31, 1995. The revolving funds audited included Distribution and Support Services, Central Motor Pool, Printing Control, and the Capitol Post Office. Also included were the financial activities accounted for in the interdepartmental accounts which related to the operations of the Capitol Post Office. Our audit included financial activities accounted for in the state’s General Fund.

Total expenditures of the funds during the 18 month audit period were $124.3 million. Expenditure refunds and revenue of the funds for the period totaled $119 million. The prime responsibility of the revolving funds is to provide centralized services for state, local and county governments and school districts.

Our scope excluded administrative type expenditures which were audited for all of the Department of the Treasury as part of our Treasury Administrative audit. Administrative expenditures and revenue excluded from our scope totaled approximately $23 million and $4.6 million, respectively.

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 issues 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 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 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. Sample transactions were judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the agency 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 agency's programs, were reasonable, and were properly recorded in the accounting systems. In making this determination, we noted certain significant internal control weaknesses and matters of compliance with laws and regulations meriting managements' attention.

We also noted that the agency has resolved the significant issues noted in our prior reports, except in the area of inventory control. This issue has been updated and restated in this report.

Details of our findings and recommendations follow.
DISTRIBUTION CENTER
PURCHASING COMPETITIVENESS

The Bureau of Distribution and Support Services (Distribution Center) was established to purchase and store items in bulk quantities at a reduced cost which enables them to pass the savings on to all state agencies, local governments and school districts. Analysis performed during our audit disclosed instances where agencies circumvented the distribution center in order to purchase commodities directly from vendors. This was particularly prevalent in the purchase of meat, which exceeded $2.6 million in fiscal year 1995.

This occurred because agencies are permitted to purchase from private vendors if items are not available at the Distribution Center. Although the user agencies, in conjunction with the Distribution Center, determines the products that will be stocked, an agency could modify its product requirements and be permitted to purchase directly using its direct purchase authority (DPA), which allows them to purchase up to $10,500 of goods not under state contract.

For example, an agency could decide that it can now use grade B meat rather than grade A or it now wants 1 oz. boxes of cereal rather than 1.5 oz. boxes. Should the lesser product not be carried by the Distribution Center the agency may use its direct purchase authority to purchase the product, possibly at a lower price.

In addition, agencies are able to take advantage of spot market pricing fluctuations, since their purchases would normally be below the DPA limit. This option, however, is not available to the Distribution Center since DPA limits are purposely set low to prohibit noncontract bulk quantity purchases. This, however, limits the Distribution Center’s ability to be a competitive buyer and respond quickly to the changing needs of its customers.

In conjunction with current audits at various institutions and correctional facilities, we analyzed 49 purchases made from private vendors for commodities available through the Distribution Center during fiscal year 1995. Our analysis found that by modifying their product requirements, in some cases, agencies were able to reduce product cost, however, they did not notify the Distribution Center of their changing requirements, which would have permitted possible additional savings through bulk purchasing. In addition the controls provided by centralized purchasing were lost.
We recommend the Department of the Treasury, General Services Administration:

C expand its contracts for certain commodities to allow for various levels of quality,

C implement a higher DPA amount specifically for the Distribution Center in order to maximize the center’s effectiveness in saving state resources through the use of bulk purchasing and to make the center more responsive to its customers.

INVENTORY CONTROL SYSTEMS

Management is responsible for providing an adequate level of internal control and compliance with procedures so that state financial resources are adequately safeguarded from loss or misuse. Our audit disclosed the following weaknesses in the inventory systems for three of the revolving funds reviewed.

C The Distribution Center maintains an automated perpetual inventory system to monitor its product inventory. The agency conducts periodic and annual physical counts of the entire inventory and adjusts inventory balances based upon the actual counts. Despite this procedure, physical counts conducted during the audit found that 17 of the 20 items sampled varied from the perpetual records. Similar error rates were noted in our prior report dated June 14, 1994. Variances from inventory records ranged from +14 percent to -14 percent. A factor contributing to the error rate was that the center’s warehouse checkers did not adequately recount items picked from stock and staged for shipment. Inaccurate balances can affect the center’s ability to reorder at the appropriate time and to adequately safeguard inventory items from misuse.

C Transportation Services (Central Motor Pool) maintains an automated inventory valuation system which enables it to centrally track inventory balances for field garage locations. In addition, they conduct periodic physical counts and adjust the inventory records for any variances. Physical counts of sampled inventory items, such as tires, batteries and headlights were conducted by the audit staff at the agency’s three largest garages and the quick service garage in Trenton.
The counts disclosed inventory variances from perpetual records which ranged from +2 percent to -26 percent. Audit testing and observation noted that inventory monitoring procedures established by the agency are not being adequately enforced, increasing the possibility of loss or misuse of inventory.

We recommend:

C The Distribution Centers’ existing perpetual inventory system be upgraded and include automated shipping order recounts to strengthen the accuracy of that process.

C Transportation Services enforce established procedures designed to monitor and control inventories.

**DISTRIBUTION CENTER - REVENUE CONTROLS**

Management is responsible for providing an adequate level of internal control and compliance with procedures so that financial resources are properly safeguarded. In the area of revenue this would include the reconciliation of cash records and compliance with Treasury procedures related to cash management. A lack of such controls increases the state’s risk of lost resources.

During our audit period the Distribution Center received approximately $49.3 million in revenue of which $10.3 million were cash receipt transactions. Our testing disclosed the following inadequate controls over the processing of cash receipts at the Distribution Center.

C The center did not have a procedure for reconciling the cash receipts per the daily mail log with the New Jersey Comprehensive Financial System (NJCFS). Periodic reconciliations are necessary to ensure that checks are properly deposited and recorded.

C Treasury Circular Letter 94-24 requires agencies to record revenue in the state financial system on a date which is consistent with the actual bank credit date. Our testing found that the center waited until there was a group of transactions to enter before recording the receipts in the financial system, thus cash receipts were not recorded in the state financial system in a timely manner. Forty-four of 52 deposits sampled were not recorded in the state financial system until the
following month. Some were recorded as long as four weeks after deposit.

We recommend the Distribution Center establish procedures to assure that receipts are adequately controlled and recorded timely in the state financial system. Procedures should include the performance of periodic reconciliations with agency records and compliance with Treasury circular letter requirements.

PREPAID POSTAGE EXPENSE RELATED TO TAXATION MAILINGS

The mailing of printed taxation forms and information is normally handled through the use of a prepaid postage permit. The Department of the Treasury, Fiscal Unit issues a check from the postage interdepartmental account to the postmaster responsible for the mailing of the forms. Adequate controls would require that prepaid expenses be monitored. Our audit found that procedures had not been established to monitor actual costs against the prepaid amounts. Unexpended amounts totaling $112,000 during our audit period had not been recovered. Upon notification of this situation management immediately established a procedure to monitor prepaid postage and requested refunds of the existing balances.

We recommend the Department of the Treasury, Fiscal Unit continue to monitor prepaid postage expenses against actual costs incurred.
DEPARTMENTAL RESPONSE

Richard L. Fair, State Auditor
Office of the State Auditor
Office of Legislative Services
125 South Warren Street
CN 067
Trenton, New Jersey 08625-0067

Dear Mr. Fair:

Thank you for the opportunity to provide comments regarding the audit performed by the Office of Legislative Services at Distribution and Support Services ("DSS"). I appreciate the time your auditors took to understand our program and the challenges we face. The departmental responses to the recommendations are as follows.

Distribution Center - Purchasing Competitiveness

In the area of purchasing competitiveness, the first recommendation suggests that DSS expand contracts for certain commodities to allow for various levels of quality. This is a suggestion that we are willing to explore. However, in order to maximize dollar savings for the State, bulk quantities (usually a truck load) must be purchased. Offering essentially the same product in varying degrees of quality could negatively impact savings potential. DSS strives to involve our customers in establishing product requirements through monthly user groups, customer surveys and a monthly review of customer product suggestions. We will look to enhance the methods we currently use to encourage more customer input.

We also concur with the second recommendation to establish a higher DPA amount for the Distribution Center to allow purchases in sufficient quantities to service the State when the need arises. To implement this recommendation, legislation will be required. Current legislation adjusting the bidding threshold to $25,000 is being reviewed by the Department.

Inventory Control Systems

In the area of inventory control systems, the audit states that the Center's warehouse checkers did not adequately recount items picked from stock and staged for shipment. Measures have been taken and will continue to be taken to correct these problems. Recently, inventory control has been tightened by placing a new emphasis on the inventory and by changing the reporting relationships so that the Inventory Control Unit reports directly to management.
In the area of Revenue Controls, the OLS audit for the period July 1, 1994 to December 31, 1995 recommended that Distribution and Support Services establish procedures to assure that receipts are adequately controlled and recorded timely in the State financial system. Procedure should include the performance of periodic reconciliations with agency records and compliance with Treasury Circular Letter requirements.

The OLS finding was in response to a lag between the daily deposits and the date of the accounting entry into NJCFS. The most significant delays resulted from surplus vehicle auction sales because those who purchase vehicles have a period not to exceed two weeks to pick up purchases (with penalty storage fees after the first week). Time is required to reconcile the accounting for the auction which can cause the NJCFS entries to be posted the next month.

In addition, daily deposits from our non-State customers experienced delays. This problem has since been rectified as have occasional delays in entering accounting transactions into NJCFS. The cash log is maintained by a program employee and processing cash receipts on NJCFS is the responsibility of Treasury-Fiscal. A written procedure for the timely processing and adequate control of cash receipts has been established and is currently being enforced. A copy of that procedure is attached.

Please contact me if you should require any further clarification on these matters.

Sincerely,

Brian W. Clymer
State Treasurer

DEPARTMENT OF TREASURY
GSA – DISTRIBUTION AND SUPPORT SERVICES

PROCEDURE FOR CASH RECEIPTS

@ DSS employee responsible for opening mail will log all checks received in check log on a daily basis. Log will show total amount received.

@ Checks along with a tape of the total is forwarded to Fiscal and Resources on a daily basis. The tape will indicate the date as well as AM or PM.
@ If AM, Fiscal staff will deposit checks before 2 PM that same day.

@ If PM, Fiscal staff will deposit checks before 2 PM the following workday.

@ To ensure compliance with circular letter requirements, the related Cash Receipt (CR) transaction will be entered on the NJCFS the same day as the deposit date.

@ A periodic reconciliation will be done between the check log and the NJCFS Cash Receipt documents.