



State of New Jersey
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State Comptroller

November 30, 2011

The Honorable Wayne Smith
Mayor
Township of Irvington
Irvington Municipal Building
1 Civic Square
Irvington, NJ 07111

Re: Follow-Up Report F-04

Dear Mayor Smith:

Pursuant to the State Comptroller's authority as set forth in N.J.S.A. 52:15C-1 et seq., we have followed up on the actions taken by Irvington Township (Township) officials to implement the recommendations contained in our audit report, *Irvington Township: A Performance Audit of Financial Management Practices* (Report PA-02), issued on March 4, 2009. Our findings and conclusions are set forth below.

Background, Scope and Objective

Our initial audit report found that the Township's financial management practices were in disarray and its internal controls were inadequate. In compiling and presenting financial data, the Township had not followed basic accounting practices or State regulations concerning those practices. The Township was unable to accurately measure its financial position or effectively manage its fiscal operations.

The objective of our follow-up engagement was to determine if the Township has implemented the 21 recommendations contained in our initial audit report.

Summary Conclusion

We found that Township officials have made some progress in implementing the recommendations contained in our initial audit report. Of the 21 prior audit recommendations, 8 recommendations have been implemented, 9 recommendations have been partially implemented and 4 recommendations have not been implemented.

Status of Initial Audit Recommendations

Recommendation 1

Management should perform its own comprehensive evaluation of Irvington's operational and fiscal environment. Based on the results of this evaluation, management should establish an effective system of internal control that mitigates risk and vulnerabilities, and should train staff in the application of controls and monitor adherence.

Status: Partially Implemented

Following our initial audit, Township officials completed an internal controls evaluation checklist and identified weaknesses in several key areas, such as purchasing, payroll and tax collection. The Township is currently in the process of addressing those weaknesses. The Township still does not have any written policies or procedures in place outlining the necessary steps for an effective internal control system. The Township's Chief Financial Officer (CFO) did, however, provide training on internal controls to Township staff.

Recommendation 2

Develop and adopt a reliable accounting system and supporting processes to ensure a balanced set of books. In addition, prepare all required financial statements.

Status: Partially Implemented

Our initial audit found that the Township did not maintain an adequate accounting system. For example, a balanced general ledger with reconciled subsidiary ledgers did not exist. The general ledger was out of balance by \$59.7 million.

In July 2010, the Township's external auditor identified the correct amount for each general ledger account as of Fiscal Year (FY) 2010. According to the external auditor's annual audit report, the auditor was able to identify the correct amounts by reconciling the Township's disbursements to the Township's expenditure reports. Of the \$59.7 million referenced above, the external auditor was unable to reconcile approximately \$1.4 million. This unreconciled balance was reflected in the financial statements as a deferred charge which will be funded in future budgets. The Township then changed each account's opening balance to reflect that corrected amount. However, no reconciliation or analysis was performed by the Township to identify why the general ledger imbalances occurred in the first place. Once the corrective action was taken by the Township, the general ledger was in balance for two of the three time periods we randomly selected (August 2009, January 2010 and October 2010).

All required financial statements are now being prepared annually by the Township. However, the Township still does not have any written policies or procedures in place concerning its accounting system.

Recommendation 3

Develop and maintain subsidiary ledgers.

Status: Implemented

Township officials provided us with account listings for the last three fiscal years for all general ledger accounts along with corresponding subsidiary ledger accounts.

Recommendation 4

Reconcile subsidiary ledgers to the general ledger.

Status: Not Implemented

For FYs 2009 and 2010, the Township's external auditor found that the general ledger did not agree with various subsidiary ledgers. According to the audit report, this finding constitutes a material weakness.

Recommendation 5

Perform monthly and year-end closing procedures.

Status: Not Implemented

Township officials did not provide us with the monthly and year-end closing procedures until after our field work and testing had been completed. The year-end closing procedures that were provided were taken from the Township's accounting software manual supplied by the vendor and were not specific to the Township's staff and their processes. We were not provided with any evidence or supporting documentation that those closing procedures were actually performed.

Recommendation 6

Submit required reports in a timely manner to DCA-DLGS [Department of Community Affairs – Division of Local Government Services].

Status: Not Implemented

Township officials provided us with a copy of each of the four reports submitted to DCA-DLGS over the past year. The Township continues to submit these reports late. Specifically, DCA-DLGS confirmed that the FY 2011 "Introduced Budget" and the FY 2010 "Unaudited Financial Statements" were each submitted ten business days late and that the FY 2010 "Annual Debt Statement" was submitted 129 business days late. Similarly, the Township's FY 2009 annual audit report was submitted 107 business days late. According to a representative at DCA, it is

important to submit these reports in a timely manner because funding requests made by the Township cannot be resolved until the reports are submitted.

Recommendation 7

Require the retained audit firm to adhere to the GAGAS [Generally Accepted Government Auditing Standards] independence standard.

Status: Implemented

We found for the FY 2009 and 2010 audits performed by the external auditor that it was no longer necessary for the auditor to prepare audited financial statements based upon an abstract of various Township financial records. This enabled the auditor to adhere to the GAGAS independence standard.

Recommendation 8

Rotate audit firms in accordance with the recommendation contained in the August 2008 OSC study.

Status: Implemented

The Township attempted to rotate audit firms by issuing a Request for Proposals (RFP) in June 2010 for audit services. The RFP was advertised in the Star-Ledger newspaper and posted a month before the proposals were due on a website on which municipal contract opportunities are advertised. The contract was awarded to the lone responder and previous Township auditor.

Recommendation 9

Develop appropriate policies and procedures to ensure good cash management practices that safeguard Irvington's assets. At a minimum:

- *Review activity in bank accounts and close the accounts that are not necessary.*
- *Prepare ongoing cash projections and appropriately invest any excess cash.*
- *Perform automated bank reconciliations. This would conserve staff time and provide reliable financial data in a timely manner.*
- *Perform timely reconciliations that are evidenced by preparer and reviewer signatures and dates. Conduct a thorough investigation of the \$2.6 million shortage.*

- *Cancel stale-dated checks and either return the funds to the bank account or escheat to the State as appropriate.*
- *Separate the responsibilities related to the receipt and deposit of cash.*
- *Ensure timely reconciliation of due to/due from accounts.*
- *Optimize the rate of return on cash and investments.*
- *Recognize liabilities in the year-end financial statements.*
- *Pay invoices timely and document all such payments.*

Status: Partially Implemented

The Township provided us with documentation demonstrating that: all unnecessary bank accounts have been closed; during FY 2011 idle cash was being invested; stale-dated checks have been appropriately canceled; the interest rate obtained on investments was comparable to that earned by the State's Cash Management Fund; liabilities have been recognized in the most recent year-end financial statement; and the majority of invoices are being paid in a timely manner and documented properly.

According to the Township CFO, employee responsibilities concerning the receipt of cash and the deposit of cash are now separated. However, the deposit of cash and the completion of bank reconciliations are still being performed by the same individual. These responsibilities should be segregated in order to reduce the possibility of fraud or error. In addition, Township officials have not adopted any written policies and procedures related to cash management.

We also found that bank reconciliations for the Township's 27 bank accounts are still being performed manually by Township staff rather than through automated means. Since the bank reconciliations we reviewed were not dated, we could not determine when they were completed or if they were completed on time. We also found that no analysis or investigation had been completed for the \$2.6 million shortage in the Township's bank balance versus the book balance as discovered during our initial audit. In addition, two Township bank accounts had unreconciled balances for each of the six months we reviewed. The two accounts are also the Township's largest accounts (Current Fund Account and Health Benefit Account).

Township officials did not provide us with the due to/due from account reconciliations we selected as our sample (July 2010 – December 2010), leaving us to conclude that they were never completed.

Recommendation 10

Ensure that all contracts include scope-of-services provisions detailing vendor obligations under the contract.

Status: Partially Implemented

The benefits of a properly drafted scope-of-services provision are set forth in our report entitled, *Best Practices for Awarding Service Contracts*, issued on March 4, 2010. Of the five contracts we reviewed as part of our follow-up engagement, three contained a scope-of-services provision and two did not. We note that the RFP concerning those two contracts did contain scope-of-services provisions. Thus, had the two contracts simply included a clause incorporating the terms of the RFP, the RFP's scope-of-services would have been legally enforceable. However, the contracts did not contain any such incorporation clause.

Recommendation 11

Work with the Department of Law and Public Safety to bring the Juvenile Detention Center into compliance with JJC [Juvenile Justice Commission] requirements.

Status: Implemented

Township officials provided us with a letter from the JJC stating that the Township's Juvenile Detention Center is now in compliance with JJC requirements.

Recommendation 12

Evaluate current IT [Information Technology] staff to determine if they have the requisite skills to implement and maintain a functional and secure IT infrastructure.

Status: Implemented

The Township's IT staff consists of two employees. Township officials provided us with the most recent performance evaluations for those employees along with their job applications. Because both employees received a positive performance evaluation, the Township has concluded that they possess the requisite skills to implement and maintain a functional and secure IT infrastructure. We note that the performance evaluation completed for one of the two employees was significantly more detailed than the evaluation completed for the other. We suggest following the format of the more detailed evaluation to provide employees with appropriate feedback.

Recommendation 13

Develop and execute a comprehensive IT Strategic Plan which includes the following:

- *Formal IT policies and procedures for acceptable use of computers. These policies and procedures should cover e-mail, remote access, granting visitors network access, passwords, and adding new employees to and removing separated employees from the network.*
- *Maintain an inventory of all software and hardware and periodically update and check with physical counts.*
- *Replace and maintain hardware and software in a way that ensures fully functional applications.*
- *Create a backup policy that includes image backups, periodic and archival backups, and offsite backups. These policies should cover all servers, network storage, and systems configurations.*

Status: Partially Implemented

Township officials informed us that an IT Strategic Plan is currently being developed and is expected to be completed this calendar year.

Policies and procedures concerning acceptable employee use of the internet and e-mail have been established, but no such policies or procedures have been developed for network access control. Similarly, inventories of hardware and software are being maintained, but the inventory of hardware is incomplete.

Outdated hardware and software are now being appropriately replaced. Hardware and software are being monitored through use of an incident management system that is now used to track all IT incidents.

On-site backups of electronic data are being performed periodically. However, there is still no off-site backup storage site.

Recommendation 14

Adhere to the policy on investigating and recouping cell phone and BlackBerry overage charges.

Status: Partially Implemented

Our initial audit found that over a 13-month period, the Township paid \$36,371 in cell phone overage charges.

After the issuance of our audit, the Township switched to the wireless service contract used by the State of New Jersey. As a result, the amount of overage charges incurred by the Township declined significantly because certain features are blocked under the State contract. Our review of a sample of invoices for cell phone and BlackBerry services identified two employees with overage charges, one for \$15.93 and another for \$41.68. The CFO informed us that no investigation was performed concerning these charges and therefore there was no attempt to recover the funds at issue. (The Township's response to this report notes that the Township now plans to undertake an investigation concerning these charges.)

Recommendation 15

Use the most economical cell phone and BlackBerry plans available.

Status: Implemented

During the course of our initial audit, the Township was spending approximately \$13,000 each month on wireless services. As noted above, after the issuance of our audit, the Township switched to the wireless service contract the State of New Jersey has to obtain a more economical wireless plan. The Township is now spending approximately \$7,500 per month for wireless services, resulting in a savings of approximately \$5,500 per month.

Recommendation 16

Bring the data center into compliance with the Telecommunications Infrastructure Standard for Data Centers or a comparable nationally accepted standard.

Status: Partially Implemented

Township officials accompanied our IT staff on a walk-through of the Township data center. Overall, our staff found the condition of the data center to be significantly improved from the time of our initial audit. However, a few potentially problematic security and safety issues remain. Specifically, windows in the data center are accessible from street level and there are no sprinklers or other automatic fire suppression system on site.

Recommendation 17

Considering operating needs and costs, determine the feasibility of merging Irvington's municipal data center and that of its Police Department into one secure location. Specifications for the consolidated server room should address all deficiencies previously mentioned. Consolidation would be more cost-effective than maintaining two separate server rooms with varying degrees of security and functionality.

Status: Not Implemented

Township officials represented to us that upgrades needed to create one consolidated server room

would cost approximately \$500,000. As a result, the Township has not moved forward with any consolidation plans. However, the Township could not provide us with any documentation or other support for its cost estimate. Without having an accurate estimate of up-front costs as well as long-term savings, we cannot conclude that the Township has appropriately evaluated the consolidation option.

Recommendation 18

Fill positions with qualified staff.

Status: Partially Implemented

We selected a sample of five employees from a list of employees the Township has hired since March 2009. Township officials provided us with four of the five employees' application/resume and all five of the employees' job descriptions. Several requests were made to obtain the fifth employee's application/resume. That individual was no longer employed by the Township and the documentation was never provided. We compared the four applications/resumes to the corresponding job descriptions and found that all four employees met the job qualifications specified for their employment position.

Recommendation 19

Create clearly defined job descriptions for all employees.

Status: Implemented

We requested job descriptions from the Township for a sample of 20 Township employees. Township officials were able to provide us with written job descriptions for the 20 employees. We found the job descriptions to be clearly defined and noted that they are posted on the State Civil Service Commission's website.

Recommendation 20

Evaluate the performance of each employee at least annually.

Status: Partially Implemented

We requested and received the most recent performance evaluations from the Township for a sample of 20 Township employees. We found the evaluations had been appropriately completed. However, several of the evaluations were not completed until nine months after the date of the review period. According to the CFO, the previous performance evaluations were completed two years earlier, in 2009. Accordingly, these performance evaluations were not completed annually as recommended.

Recommendation 21

Take appropriate action when employees do not perform their job responsibilities in a satisfactory manner.

Status: Implemented

Township officials provided us with a list of employees who have had disciplinary action taken against them over the past year. We randomly selected three of the employees and obtained documentation related to each employee's disciplinary matter. We found that the Township had taken appropriate disciplinary action concerning each employee. We also reviewed documentation regarding an incident where no disciplinary action was deemed necessary. We determined that the necessary steps were taken by the Township to reach that conclusion.

Reporting Requirements

We provided a draft copy of this report to Township officials for their review and comment. Their comments were considered in preparing our final report and are attached as Appendix A. According to the response, Township officials are continuing to take steps to address those recommendations that were either partially implemented or not implemented.

The Office of the State Comptroller is required by statute to monitor the implementation of our recommendations. To meet this requirement, Irvington shall report periodically to this Office advising what additional steps it has taken to address the unresolved issues in this report. This Office will continue to monitor those steps.

We thank the management and staff of Irvington Township for the courtesies extended to our auditors during this review.

Very truly yours,



William P. Challice, CIA, CFE, CGFM
Director, Audit Division

- c. The Honorable John Sowell – City Council President
- Wayne Bradley – Business Administrator
- Faheem J. Ra'Oof – Director, Revenue and Finance

**Township Of Irvington
Response to Office of the State Comptroller Office
Report Dated September 30, 2011**

Recommendation's 3, 7, 8, 11, 12, 15, 19, and 21 have been fully implemented and no response will be giving.

Recommendation 1: Internal Controls System with evaluation, training, and monitoring.

Status: *Partially Implemented*

Response: The township is continuing its progress in the area of strengthen its internal controls by implementing the following:

- a. Converting the tax collection computer system to the same system as the financial and purchase system (Edmunds). Which will enhance the internal controls in that are by seamless integration of all transaction directly into the general ledger and eliminating the need for duplicating work and allow for effective oversight? The conversion will be completion date is December 2011.
- b. Upgrading its payroll process by automating the Time and attendants, Payroll and Human Resources system in one fully integrated process. This new system will also link directly to the General Ledger creating and effective and efficient process of recording, maintaining, and monitoring the payroll process. The upgrade is on target to be implemented in January 2012.
- c. Attached is a sample draft of written Accounting & Financial Policies and Procedures Manual of which the Township is modifying to fit it's financial operation. The target completion date and full implementation Date by December 1, 2011.

Recommendation 2: Develop reliable accounting system, with written policies and procedures.

Status: *Partially Implemented*

Response: The Township has always and continues to adhere to and comply with the State laws which govern the accounting and fiscal affairs, as outlined in N.J.S.A 40A: 2, 4, & 5 as well as Local Financial Notices as issued by the State Division of Local Government Services. The Attached sample accounting and financial policies and procedures, that will modified to fit the township purposes and is target to be completed and implemented by December 1, 2011.

Recommendation 4: Reconcile subsidiary ledgers to the general ledger.

Status: *Not Implemented*

Response: The subsidiary ledgers have been reconciled to the General ledger, since the issuance of this report. The reconciliation of the subsidiary ledgers have corrected to the Fiscal year ending June 30, 2011, and being reviewed on a monthly bases. The township has just begun it annual audit process which will serve as and monitoring, and report the reconciliation of the subsidiary ledgers.

Recommendation 5: Perform monthly and year-end closing procedures.

Status: *Not Implemented*

Response: After the issuing of this report the monthly and the year end closing procedures have been fully implemented and done retroactively back to the closing of the fiscal year ending June 30 2011, and done each month forward. The yearend procedures provided was the same as the monthly procedures with

the addition of the software vendor year end procedures as outline in their manual that is a part of the Townships policies and procedures. The yearend procedures was complete by the CFO, which include the outlined steps in the monthly and the additional step as outline in the software manual as provide. See Attached Check list and closing journal entries.

Recommendation 6: Submit required reports in a timely manner

Status: *Not Implemented*

Response: The Township has implemented a plan of fully staffing the finance department to assure that the timely filing of the required reports is done. It will add to its polices an documentation procedures that if an unexpected reason for the delay of filing of any of the reports will be written and attached to the file to explain the cause of the late filing.

Recommendation 9: Policies and procedures on cash management practices.

Status: *Partially Implemented*

Response: The due to/from are reviewed on the month end procedures and since the drafting of this report have been reconciled. (See the attached) The cash management and process have been enhance with the closing of most several of the inactive accounts. All bank reconciliation is now being prepared in the accounting software system; accept for those that are maintained by third party administrators. As outing in recommendations 1 and 2 above, the written policies for cash management system is included.

Recommendation 10: Ensure all contracts include scope-of-services provisions.

Status: *Partially Implemented*

Response: The division of purchasing and the township legal department have reviewed and enhance its review process of all RFPs so that they include the proper scope-of-services provisions and meet the recommended best practices.

Recommendation 13: Develop and execute comprehensive IT Strategic Plan.

Status: *Partially Implemented*

Response: As the completion of the IT plan is be completed the backup storage and the consolidation of the date center is being add, which will include the comparison of maintain IT in-house, outsourcing, or a combination of both. A major part of the plan will include the cost vs. saving, and facilities. The plan is target to be completed in November 2011.

Recommendation 14: Adhere to cell phone policy

Status: *Partially Implemented*

Response: The overall policy is currently being adhered to, and ongoing monitoring is being done with In the Business Administrator's office. With respect to the two finding the township will complete an investigation and if warrant will demand and recoup the funds for the over charges.

Recommendation 16: Compliance of the date center with infrastructure standards.

Status: *Partially Implemented*

Response: As outing in our response to recommendation 13 above, the township is in the process of completing the comprehensive IT Strategic plan which will include this recommendation. See recommendation 13 above.

Recommendation 17: Merging data center's into one.

Status: *Partially Implemented*

Response: Same as recommendation 13 and 16, above.

Recommendation 18: Fill positions with qualified staff

Status: *Partially Implemented*

Response: The open item under this recommendation do the employee was no longer employed by the Township. The policy of the township hiring practices have to employ qualified staff and documentation to support that policy by securing all of the required information and documents before an new employee begins work and maintained in their file.

Recommendation 20: Annual performance evaluations.

Status: *Partially Implemented*

Response: It is the township policy to perform annual performance evaluations on all employees, each year in timely manner. To enhance this process and to serve as a tracking process the upgraded payroll system that is outlined in recommendation 1 above will include a Human Resources module that will notice and report on outstanding evaluations, as well as document the completions of the evaluation. The system will be implemented in January 2012.

Conclusion

The Township will submitted to the State Office of Comptroller documentation and progress reports as to the completion of the above recommendation as outlined and responded to.