



State of New Jersey

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A. MATTHEW BOXER
State Comptroller

June 6, 2013

The Honorable Lorenzo T. Langford
Mayor
City of Atlantic City
1301 Bacharach Boulevard
Atlantic City, NJ 08401-4603

Re: Follow-Up Report F-07

Dear Mayor Langford:

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 Atlantic City (City) officials to implement the recommendations in our audit report, *Atlantic City: A Performance Audit of Financial Management Practices* (Report PA-07), issued on January 27, 2010. Our findings and conclusions are set forth below.

Background, Scope and Objective

Our initial audit report identified widespread weaknesses in the City's financial management practices and internal control structure. These weaknesses manifested themselves across numerous fiscal and operational areas. Following our audit, the State's Department of Community Affairs undertook enhanced oversight of the City, particularly in areas such as hiring, professional services contracting and travel by City employees.

The objective of our follow-up engagement was to determine if the City has implemented the 40 recommendations contained in our initial audit report.

Summary Conclusion

We found that City officials have made progress in implementing the recommendations set forth in our initial audit report. Of the 40 audit recommendations, 27 recommendations have been implemented, 12 recommendations have been partially implemented and 1 recommendation has not been implemented.

Status of Initial Audit Recommendations

Recommendation 1

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

Status: Partially Implemented

The City did not perform a risk evaluation of its fiscal and operational environment and consequently did not conduct related training or establish a comprehensive system of internal controls to help mitigate its risks.

In its Corrective Action Plan submitted in response to our initial audit, the City stated that it intended to hire a Chief Compliance Officer to perform the above-mentioned tasks. Although the City has not yet done so, the City has filled the position of Director of Revenue and Finance and hired a new Risk Manager and Business Administrator. These three positions oversee and have completed many of the tasks and responsibilities that a Chief Compliance Officer would accomplish, including monitoring the City's existing internal controls.

Recommendation 2

Implement corrective actions to address the recommendations made by the City's external auditor.

Status: Implemented

The City implemented corrective action for all seven recommendations identified by its external auditor as repeat findings. Specifically, the City is now: reconciling inter-fund transfers prior to year end; completing reconciliations of general ledger and subsidiary accounts; maintaining the planning escrow trust account; following standard protocols for the purchase of goods and services; following appropriate procedures for overtime approval; updating and maintaining the tax assessor's map; and maintaining established procedures to verify sick and vacation time accruals for City employees.

Recommendation 3

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

Status: Implemented

We reviewed the City's latest contract with its external auditor in conjunction with the standards related to independence of external auditors. The external auditor is now adhering to GAGAS independence standards. Specifically, the external auditor is not providing to the City any financial services that would compromise the auditor's independence.

We note that the City has used the same external auditor for the past 11 years. Our August 2008 report entitled *Selection and Use of Audit Firms by New Jersey Governmental Units* recommends that government units should not use the same audit firm for more than ten consecutive years.

Recommendation 4

Carefully review all contracts and resolutions to ensure the accuracy of the information contained therein.

Status: Implemented

We tested a sample of five City contracts awarded since our initial audit to ensure the accuracy of the information contained therein. All five of the contracts contained accurate information and proper supporting documentation.

Recommendation 5

Develop appropriate cash management policies and procedures to safeguard the City's assets. At a minimum:

- *Review activity in City bank accounts and close accounts that are not necessary.*
- *Perform automated bank reconciliations and ensure they are signed and dated by the preparer and reviewer.*
- *Ensure compliance with N.J.S.A. 46:30B-1 et seq. by canceling stale-dated checks and either return the funds to the bank account or escheat to the State as appropriate.*

Status: Partially Implemented

Following City officials' review of activity in City bank accounts in response to our audit, the City closed the three bank accounts that had no activity. It also has begun performing automated bank reconciliations and has complied with N.J.S.A. 46:30B-1 et seq. in regards to canceling stale-dated checks. However, bank reconciliations still are not being signed and dated by the reviewer as recommended.

Recommendation 6

Maintain a sign-in/sign-out sheet for the vault within the City Clerk's office.

Status: Implemented

Following our initial audit, the City made the City Clerk's office a secured, locked area. In lieu of a sign-in/sign-out sheet for the vault, non-clerk employees simply are no longer allowed into the vault.

Recommendation 7

Secure blank checks in the City Clerk's office along with the signature stamp.

Status: Implemented

The City's checkbook and the City Clerk's signature stamp have been moved to a secure, locked file cabinet in the City Clerk's office.

Recommendation 8

For checks greater than a specified threshold as determined by management, require at least two signatures on checks paid from the City Clerk's office.

Status: Implemented

The City adopted a resolution in February 2010 requiring that two signatures be used to sign all checks from the City Clerk's office. To test compliance with our recommendation, we reviewed the City's May, September and December 2012 bank statements and related checks. All nine checks paid from the City Clerk's office for these months had two signatures.

Recommendation 9

In compliance with N.J.S.A. 40A:2-39, ensure that bond proceeds are transferred or utilized to retire outstanding debt when the funds are no longer needed for their original purpose.

Status: Implemented

To comply with N.J.S.A. 40A:2-39, the City has implemented a biannual review of its capital funds to determine if any existing debt balances can be cancelled or re-appropriated. In furtherance of that effort, the City's Director of Revenue and Finance and its Chief Financial Officer met in December 2011 to review the City's capital fund balances. As a result of that meeting, a resolution to transfer unexpended balances of approximately \$246,000 to other projects in need of funding was approved by the City Council.

Recommendation 10

Foreclose on eligible properties in a timely manner to generate revenue for the City.

Status: Implemented

Following the issuance of our audit report, the City hired an attorney to assist with the foreclosure of eligible properties within the City. As a result, in fiscal year 2011, the City foreclosed on 35 properties having a total assessed value of \$2,870,600, and took legal possession of those properties. Once foreclosed, the City can proceed to sell the properties. In that same fiscal year, the City Council

authorized such a public sale in which 57 previously foreclosed properties ultimately were sold for a total of approximately \$287,400.

Recommendation 11

Ensure that all service-related contracts follow GAO's [U.S. Government Accountability Office] guidelines concerning statement-of-work provisions.

Status: Implemented

We tested a sample of five of the City's service-related contracts and determined that they were all in compliance with GAO guidelines concerning statement-of-work provisions.

Recommendation 12

Ensure compliance with IRS [Internal Revenue Service] regulations regarding reporting of taxable fringe benefits. Discontinue the practice of paying such benefits on behalf of City employees. Consider recouping the cost paid to the IRS from the employees in question.

Status: Implemented

We reviewed pertinent financial information related to fringe benefits as maintained by the City. We also examined the W-2 forms of all Council members using City vehicles during 2010. We confirmed that in compliance with IRS regulations, a vehicle fringe benefit amount was included as additional income to those Council members on their W-2 forms.

The City further considered recouping the cost of taxable fringe benefits it previously paid on behalf of its employees. According to the Director of Revenue and Finance, the City spoke with the Internal Revenue Service about the issue, but ultimately determined that the administrative costs associated with filing the necessary amended returns for various quarters of the years at issue were greater than the amount of money that would have been recouped. Therefore, the City decided not to attempt to recoup those costs.

Recommendation 13

Develop written policies and procedures for the City's grants management process and distribute them to all relevant personnel.

Status: Implemented

In response to our audit, the City developed written policies and procedures for the City's grants management process and distributed them to all relevant personnel.

Recommendation 14

Require all invoices submitted by the grant consultant to adequately describe the services performed prior to disbursing City funds.

Status: Implemented

We reviewed a sample of four invoices submitted by the City's grant consultant. The invoices adequately described the services performed and were submitted prior to the disbursement of City funds.

Recommendation 15

Perform a cost-benefit analysis to determine if filling the vacant Grants Analyst position to manage the grants system would be cost beneficial.

Status: Partially Implemented

Our initial audit noted that the City had been contracting with a grant consulting firm instead of filling its vacant Grants Analyst position. In its Corrective Action Plan filed in response to our audit, the City stated that it had determined that it would not be cost effective to fill its vacant Grants Analyst position. The City could not, however, provide any documentation indicating that it actually had performed a cost-benefit analysis. According to the Director of Revenue and Finance, City officials met informally to discuss filling the vacant position. Following our initial audit, the City did terminate the previous grant consultant and a new grant consultant was hired at a significantly lower cost.

Recommendation 16

Develop and implement an IT [Information Technology] strategic plan that includes short-term and long-term objectives. If the City determines, based on a cost-benefit analysis, to in-source IT, it should develop a plan to execute this objective.

Status: Partially Implemented

While the City did not develop a formal, written IT plan or undertake any written cost-benefit analysis, it did execute a strategy to in-source nearly all of its IT functions. To that end, the City has created and filled seven Civil Service positions within the IT Department in lieu of contracting out for these IT services.

Recommendation 17

Ensure that any outsourced IT functions are aligned with the City's strategic plan to be developed.

Status: Implemented

The City's last remaining outsourced IT function was in the area of website development. Specifically, the City retained a web developer to update the City's website. While the City still does not have a formal strategic IT plan, the City's Director of Data Processing explained to us that outsourcing this service was necessary because the City's IT staff do not have the expertise needed to perform this function.

Recommendation 18

Task a City employee with overseeing any outsourced IT functions.

Status: Implemented

The City has charged the Director of Data Processing with oversight of these services. We reviewed her oversight of the October 2011 web developer contract and found it to be adequate.

Recommendation 19

Ensure competitive practices are followed where possible if selecting consultants to perform IT work.

Status: Implemented

Our review found that the City's web developer was procured in accordance with the requirements of the New Jersey Local Public Contracts Law, N.J.S.A. 40A:11-3(a) and N.J.S.A. 40A:11-6.1(a).

Recommendation 20

Develop and maintain an accurate inventory system for the City's IT hardware and software, encompassing all City departments. Conduct physical inventories regularly.

Status: Implemented

The City's Management Information Systems (MIS) Division has developed and maintains an IT inventory tracking system as equipment is brought into and leaves City service. The inventory is confirmed through an annual physical inspection. We selected seven pieces of equipment from the inventory tracking system. MIS staff was able to physically locate each of the selected items.

Recommendation 21

Ensure that all purchased computer equipment is installed and used, or returned to the vendor and a credit received for returned items.

Status: Implemented

The MIS Division is now ensuring that all City-purchased computer equipment is being installed and used upon receipt. During a walk-through of two City facilities serviced by the MIS Division, we did not identify any purchased computers still awaiting distribution.

Recommendation 22

Perform periodic user access reviews for IT systems. Maintain access levels consistent with employees' current employment status.

Status: Partially Implemented

According to the City's Director of Data Processing, on a bi-weekly basis her department now compares City payroll records to a list of employees with access to City IT systems to uncover any issues involving unauthorized user access. However, our review of user accounts for the City's accounting system revealed five terminated employees still retaining access to the financial system. These employees had been terminated between January 2010 and April 2012. The accounts were disabled immediately by MIS staff when we notified them of our findings.

Recommendation 23

Complete the installation of the biometric clock system and implement the payroll interface.

and

Recommendation 24

Adhere to the Manual [Policy and Procedure Manual] with regard to the use of the biometric clock system.

Status: Partially Implemented

The City continues to work towards completing the installation of the biometric clock system. The biometric system implemented by the City requires City employees to place their badge through a scanner to record their employee number. The employee then places his or her fingertips on the device to confirm the identification.

While the City's Policy and Procedure Manual requires all City employees to use the biometric clock to sign in and out each day, not all City employees are currently using the system. Specifically, the Police Department has not yet begun to implement the system due to difficulties in processing overtime. In addition, the system's payroll interface with the City's accounting system has not been implemented due to technological issues. The City continues to work to find a solution concerning these issues. Similarly, City Parking Authority employees do not yet have chips in their identification cards needed for them to use the biometric clock system, but the City is working to resolve the issue.

Recommendation 25

Adhere to the Manual with regard to the 60-day waiting period for health benefits.

Status: Implemented

We reviewed City health benefit records of the three City employees hired between January 1, 2011 and April 30, 2011. In accordance with the Manual, two of the three hired employees were enrolled in the City's health benefits plan 60 days after they were hired. The other employee was not enrolled because she did not apply for City-funded medical coverage.

Recommendation 26

Ensure that documents such as job applications and performance evaluations are completed and maintained as required by the Manual.

Status: Partially Implemented

We tested personnel files for the three employees hired between January 1, 2011 and April 30, 2011. Each of the files properly contained job applications, resumes and criminal background checks. However, performance evaluations were not being completed for any of the City's employees. During the course of our field work for this follow-up engagement, the City amended its policies and procedures concerning performance evaluations and reported to us that the City now intends to undertake performance evaluations for all of its employees.

Recommendation 27

Properly segregate duties by requiring Human Resources personnel, not Payroll personnel, to enter into the payroll system all new hires as well as information concerning terminations and salary changes.

Status: Implemented

After the issuance of our audit, the City transferred two Payroll Department employees to the Personnel Department (i.e., Human Resources). These two employees now report to the interim Director of Personnel and are responsible for entering information concerning new hires, terminations, and title and salary changes into the payroll system.

Recommendation 28

Eliminate the use of City Council aides and restructure the staff to conform with N.J.S.A. 40:69A-60.5.

Status: Partially Implemented

During our initial audit, we found that the City employed 11 City Council aides contrary to State law. The City has since eliminated 9 of the 11 Council aide positions. Specifically, our follow-up review found that of the 11 aides, 2 were terminated, 1 retired and 1 is now deceased. Of the remaining seven individuals who held Council aide positions, five have been reassigned to other open positions within City offices. The remaining two employees were transferred to the City Clerk's office and provided with new job titles. However, these two employees are still functioning as City Council aides and still report to the City Council President.

One of these two employees subsequently received a promotion to the title of "chief clerk" with a salary of \$58,300. An audit conducted by the State's Civil Service Commission determined that this employee's title should have been "clerk typist 2" and the individual consequently was demoted accordingly. However, our follow up revealed that while this employee was demoted in title, she is still receiving the salary of a "chief clerk." In accordance with Civil Service guidelines and the operative collective bargaining agreement, at the time of the promotion her maximum salary would have been approximately \$45,000.

Recommendation 29

Consider mileage reimbursement for Council members instead of assigning a City vehicle to each Council member. In the interim, require automobile usage logs of all Council members, documenting dates, locations and business justification for the vehicles' usage.

Status: Not Implemented

In its Corrective Action Plan, City officials stated that they had started using vehicle logs for all City vehicles. We nonetheless found that Council members are not maintaining such logs to document their vehicle usage. Further, there is no indication or evidence that the City considered the costs of providing mileage reimbursement to Council members as opposed to assigning them the vehicles. We note in this regard that the City recently purchased new vehicles for three City Council members. The City advised us that it anticipates that the Council will implement a logging system for its use of vehicles, but it has not committed to a particular time frame.

Recommendation 30

Train all staff regarding licensing and billing procedures, the City Code and other applicable laws.

Status: Implemented

Following our audit the City created written guidelines concerning the procedures to be used to process documents maintained by the Mercantile License Section (License Section), which was the focus of this recommendation in our initial audit. These guidelines were distributed to all staff in the License Section. Training was provided to designated staff concerning License Section procedures, the City Code and other applicable laws.

Recommendation 31

Train clerical staff to ensure proper recording of information in the City's accounting system and accurate data entry for rates and fees.

Status: Implemented

This recommendation pertained specifically to the clerical staff in the License Section. As noted above, the City provided us with new guidelines showing the steps and procedures to be used to process documents in the License Section. We also received a list showing the applicable rates and fees to be charged. Following our initial audit, these guidelines and fee schedules were provided to the clerical staff to help ensure that the information being recorded in the City's accounting system is accurate. The License Section supervisor also now holds weekly staff meetings with clerical staff regarding, among other topics, City operations with regard to data entry and the recording of information.

Recommendation 32

Assign each License Inspector to a designated section or ward of the City.

Status: Implemented

License inspectors are now assigned to particular districts in the City on a three-month rotating basis.

Recommendation 33

Require Chief License Inspectors to review daily log sheets to ensure adequate geographic coverage of City neighborhoods and appropriate monitoring of License Inspectors.

Status: Partially Implemented

The City's Chief License Inspectors are now required to review and initial daily logs to ensure adequate coverage by and monitoring of license inspectors. When a Chief License Inspector is not available, the License Section supervisor is to review and initial the logs. However, when we examined 11 daily log sheets, we found that only 2 had been signed to indicate that the log sheet had been reviewed.

In addition, the License Section supervisor now holds weekly status meetings with the inspectors in order to obtain information from them about their daily operations and operating procedures.

Recommendation 34

Invoice casino-hotels for underpayments and reimburse or credit casino-hotels for overpayments made due to errors in hotel room and parking space license fee calculations.

Status: Implemented

Since the time of our initial audit, the City correctly invoiced the casino-hotels for previous underpayments and reimbursed or credited them for overpayments made due to errors in hotel room and/or parking space license fee calculations.

Recommendation 35

Revoke the license of any business failing to pay health inspection fees in a timely manner as per Section 170-45 of the City Code.

Status: Implemented

Shortly after our initial audit, the City's Director of Licensing and Inspection sent a directive to appropriate City personnel regarding revoking the license of any business failing to pay health inspection fees in a timely manner. At the time of our follow-up testing, there were no businesses with outstanding health inspection fees, according to the supervisor of the City's Mercantile Division.

We randomly selected a sample of five businesses within the City to verify that they were current in paying their health inspection fees. All of the businesses we tested had up-to-date licenses and health inspections and had paid the appropriate fees to the City.

Recommendation 36

Provide a checklist of required documents to Mercantile License Section clerks regarding all licenses issued by the Section. Ensure that all documents required for licensure are requested, received, and maintained in appropriate files with respect to jitney drivers, taxicab drivers, limousine drivers, and other business owners.

Status: Partially Implemented

The License Section provided us with their newly distributed checklist of required documents for all issued licenses. We selected a sample of two licenses for each of the three driver categories (jitney, taxicab and limousine) and obtained these files to verify that all required documents were being maintained. Our testing revealed that four of the six sampled license files did not contain all required documents per the checklist. For example, two jitney drivers' folders did not contain a physician statement showing mental and physical capabilities as required by the City's checklist and two taxi drivers' folders did not contain a New Jersey business registration and/or insurance coverage documents as required by the checklist.

Recommendation 37

Upon renegotiation of the PBA [Policemen's Benevolent Association] and SOA [Superior Officers Association] contracts, the City should address the issues of extended sick leave as well as accumulated time buy-outs. The City should specifically address:

- a) Capping the amount of time and number of times an officer can be absent from work due to extended leave.*
- b) Capping the number of vacation and sick days that can be accrued while on extended sick leave, especially when the extended leave time exceeds one year.*
- c) Revising the additional allowances paid to officers while out on extended sick leave.*
- d) Defining the types of injuries or illnesses that would permit an officer to be out on extended sick leave.*
- e) Eliminating prior to retirement and limiting upon retirement the lump sum payments received for accumulated time.*

Status: Partially Implemented

The City's current PBA and SOA contracts expired at the end of calendar year 2012. The City has not yet made changes to or renegotiated those contracts. In the interim, the City's Police Department has

developed medical policies and procedures regarding the reporting, treatment and evaluation of medical conditions for all employees of the department. These procedures went into effect in May 2011.

The City also established a Medical Monitoring Unit to monitor the progress of sick and injured Police Department employees and to transition these employees back into the workforce in accordance with the recommendations of a City-designated physician. Further, City employees are now required to obtain approval from the City physician if requesting to take extended sick leave. We note that the City has reduced the number of employees on extended sick leave from 104 to 7 since the time of our initial audit.

Recommendation 38

Limit the number of users that may access the POSS [Police Officers Scheduling System] and add or change entries.

Status: Implemented

Since the time of our initial audit, the City has restricted POSS user access based on employee rank. For example, the City eliminated the ability of a subordinate to approve or change entries for themselves or for employees of the same or higher rank. The City sent a written directive to all Police Department employees to help ensure that these policies and procedures were understood and would be followed.

Recommendation 39

Consider the need to upgrade the use of safety-related technology in Police vehicles.

Status: Implemented

Since the time of our initial audit, the City's Police Department received a \$250,000 Justice Assistance Grant from the New Jersey Office of the Attorney General. The grant monies are being used to update the safety-related technology in Police Department vehicles with items such as equipment that will enable officers on patrol to make motor vehicle and criminal inquiries.

Recommendation 40

Ensure compliance with the Administrative Office of the Courts' Directive 15-06. Officers should be assigned to work in the municipal courts to ensure the safety of court personnel as well as those required to attend.

Status: Implemented

The City is now adhering to Directive 15-06 by assigning police officers to the City's municipal courts.

Reporting Requirements

We provided a draft copy of this report to Atlantic City officials for their review and comment. Their comments were considered in preparing our final report and are attached as Appendix A.

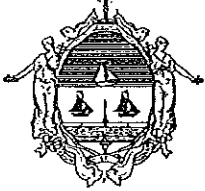
The Office of the State Comptroller is required by statute to monitor the implementation of our recommendations. To meet this requirement, the City of Atlantic City shall report periodically to this Office advising what additional steps it has taken to address the unresolved issues discussed in this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

We thank the management and staff of the City of Atlantic City for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,



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



OFFICE OF THE DIRECTOR

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May 15, 2013

State of New Jersey
Office of the State Comptroller
P. O. Box 024
Trenton, NJ 08625-0024
Attn: Elizabeth Watson, Audit Manager

Dear Ms. Watson:

Thank you for meeting with us on Wednesday, April 3, 2013 to conduct the exit conference of your follow-up to the report that was issued to the City of Atlantic City in 2010. This conference mainly dealt with only one item remaining from your initial report that you identified as 'Not Implemented' and other items described as "Partially Implemented". We discussed these items and I wanted to memorialize our understanding of these issues.

Recommendation 29:

This point deals with the issue of Council vehicles. Council President Marsh participated in the conference via the telephone. Mr. Marsh responded to the questions you asked regarding the vehicles and promised that action would be taken. Mr. Marsh was asked to provide additional follow-up information to the audit staff. It is anticipated that Mr. Marsh will institute a logging system for Council use of vehicles to prevent any abuses of these assets.

In summary, I thought the exit conference went well. My understanding was that you would await the City's written response to the meeting and then issue a final report.

I believe we all agree that the City has made great strides and resolved the most important issues related to your initial audit. We thank you for your comments and input on improving the financial condition and internal controls of the City of Atlantic City. We will continue to monitor these controls and look for other efficiencies that improve our management practices.

Thank you.

Sincerely

A handwritten signature in black ink that reads "Michael P. Stinson".

Michael P. Stinson
Director of Revenue & Finance

Cc: Lorenzo T. Langford, Mayor
Ron Cash, Business Administrator
William H. Marsh, City Council President
Joanne Shepherd, Comptroller & CMFO