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November 6, 2014

Leonard J. Roseman
Chairman
Middlesex County Improvement Authority
101 Interchange Plaza
Cranbury, NJ 08512

Re: Follow-Up Report F-13

Dear Chairman Roseman:

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 the Middlesex County Improvement Authority (MCIA or Authority) to implement the recommendations in our audit report, *Selected Procurement and Financial Operating Practices* (Report PA-16), issued on August 1, 2012. Our findings and conclusions are set forth below.

Background, Scope and Objective

Our initial audit report found that MCIA did not effectively manage many of its contracts and provided its management with payouts that were contrary to the interests of the Authority and the public.

The objective of our follow-up engagement was to determine if MCIA has implemented the 15 recommendations contained in our initial audit report.

Summary Conclusion

We found that MCIA has made significant progress in implementing the recommendations set forth in our initial audit report. Of the 15 prior audit recommendations, 14 recommendations have been implemented and 1 has been partially implemented.

Status of Initial Audit Recommendations

Recommendation 1

Implement a formal vendor evaluation process for awarding professional services contracts utilizing appropriate qualitative criteria, including cost as appropriate.

Status: Implemented

In their written response to our initial audit, MCIA officials stated they have "a formal evaluation process which evaluates appropriate qualitative criteria crucial to the performance of the professional services." For our follow-up engagement, we obtained a list of contracts awarded during calendar year 2013 and selected a sample of five professional service contracts to verify that MCIA had implemented a formal vendor evaluation process for awarding professional services contracts. Three of the five selected contracts were procured through the fair-and-open process and included a formal vendor evaluation process. The other two contracts were cases where MCIA acquired services through the non-fair and open process which does not require a formal vendor evaluation process. As a best practice, we suggest MCIA consider implementing a vendor evaluation process for such contracts as well.

Recommendation 2

Use a written contract in purchasing professional services.

Status: Implemented

Our initial audit found that in several instances, MCIA used purchase orders instead of formal contracts to obtain professional services. In their written response to our initial audit, MCIA officials stated they now use a written contract in purchasing professional services. All five professional services contracts that we selected concerning Recommendation 1 were in writing.

Recommendation 3

Ensure that all contracts include a termination provision and scope of services provision.

Status: Implemented

We reviewed the sample of five professional service contracts referred to in Recommendation 1 to verify that the contracts contained a termination provision and a scope of services provision. All of the contracts included these provisions.

Recommendation 4

Require vendors to submit detailed invoices to comply with N.J.A.C. 5:31-4.1(a).

Status: Implemented

Our initial audit found that MCIA's insurance consultant did not submit detailed invoices. We reviewed the five contracts referred to in Recommendation 1 and their corresponding invoices to verify that MCIA required its vendors to submit detailed invoices to comply with *N.J.A.C. 5:31-4.1(a)*. All five contracts and vendors were in compliance with this requirement.

Recommendation 5

Reevaluate the need for retaining an insurance consultant and document that reevaluation.

Status: Implemented

In their written response to our initial audit, MCIA officials stated "the need for retaining an insurance consultant was reevaluated and as of January 1, 2012, the MCIA no longer retains an insurance consultant." During our follow-up, we reviewed the list of contracts awarded during 2013 and determined that MCIA no longer retains an insurance consultant.

Recommendation 6

Reevaluate the eligibility of the Authority's legal counsel/Recording Secretary for health benefits.

Status: Implemented

We reviewed MCIA's list of employees/retirees covered under the Middlesex County Joint Health Insurance Fund and determined that this individual is no longer receiving health benefits.

Recommendation 7

Solicit two or more quotations for all applicable purchases as required by the Local Public Contracts Law.

Status: Implemented

Our initial audit found instances where MCIA failed to obtain quotations for contracts although required by the Local Public Contracts Law and instead awarded the contract to its preferred vendor. For our follow-up engagement, we selected a sample of purchase orders from 2013 that required the solicitation of quotes due to their dollar threshold. After reviewing the documentation pertaining to the sampled purchase orders, we determined that MCIA was in compliance with the requirements of the Local Public Contracts Law regarding the solicitation of quotes.

Recommendation 8

Develop a comprehensive Purchasing Manual.

Status: Implemented

Following our initial audit, MCIA updated its Purchasing Manual to address this recommendation. For example, the Purchasing Manual now specifies the dollar amount at which quotations must be obtained and the number of quotes that must be obtained. It also provides instruction as to how to properly document the quotations received.

Recommendation 9

Enforce Authority policies that are designed to ensure that Board members have adequate time to review a proposed vendor payment before voting on the payment.

Status: Implemented

During our initial audit, we found that one specific vendor submitted invoices to the Authority that were received less than seven days before the monthly Board meeting. Most of these invoices were received one day before the meeting. For our follow-up engagement, we reviewed the Monthly MCIA Board Meeting Expenditure Approval Lists for 2013, which included invoices approved for payment. We then selected a sample of invoices from the vendor in question, as well as 10 other judgmentally selected invoices from additional vendors for a total sample of 22 invoices. For each invoice selected, we obtained from MCIA the date of receipt, which we then compared to the monthly Board meeting date to determine if the invoice was received seven or more days prior to the Board expenditure approval date.

Of the 22 invoices selected, 18 were received 7 or more days prior to the Board meeting date. The four exceptions were all for the vendor identified during the initial audit. Three of the invoices were received six days prior to the Board meeting and one was received five days prior to the meeting. We determined that these were not significant exceptions, and concluded that Board members have adequate time to review a proposed vendor payment.

Recommendation 10

Ensure compliance with N.J.S.A. 46:30B-1 et seq. by canceling stale-dated checks and either return funds to their owner or remit them to the State as unclaimed property.

Status: Implemented

MCIA provided a copy of a 2013 unclaimed property report filed with the State and proof of payment to the State, which indicates that MCIA is now in compliance with the statute.

Recommendation 11

Reevaluate the management incentive payment program and align any supplemental benefit payments with achievement of Authority-defined goals and objectives.

Status: Implemented

Our initial audit found that the incentive payments made to management were not being made with appropriate transparency. Further, none of the applicable contracts or the Personnel Manual referenced these incentive payments. We reviewed the current employment agreements for the Executive Director, the Chief Financial Officer, and the Director of Resident Care Licensed Administrator, as well as the MCIA Personnel Manual. We did not find any mention of supplemental benefit payments in these documents.

Our follow-up determined through a review of payroll records that supplemental benefit payments were not paid to these employees during 2013. Additionally, the Authority confirmed that MCIA executives had not received management benefit incentive payments as of January 1, 2013.

Recommendation 12

Impose a limit on the total compensation provided to the Executive Director and other Authority managers. In arriving at that policy, the Authority should consider the salary structure for other New Jersey public sector employees.

Status: Implemented

MCIA imposed a limit on total compensation provided to the Executive Director and other Authority managers for the period 2013-2015. In arriving at this limit, the Authority considered the salary structure for New Jersey public sector employees in agencies such as the Middlesex County Utilities Authority and New Jersey Economic Development Authority. We confirmed that the compensation for MCIA management was within their contracted compensation limits.

Recommendation 13

Eliminate the yearly sick leave buy-out.

Status: Partially Implemented

MCIA officials stated that as of 2013 they eliminated the yearly sick leave buy-out for non-union employees. With respect to union employees, this policy will be reviewed in future negotiations. Several of the Collective Bargaining Agreements in effect during the initial audit remain in effect. The Authority eliminated reference to yearly sick leave buy-outs from its Personnel Manual, which now allows for a one-time maximum payout of \$15,000 at retirement. The same has been applied to the employee agreements with management beginning in 2013. Our review of the payroll records for four management employees confirmed they did not receive a sick leave buy-out for 2013.

Recommendation 14

Discontinue the practice of paying County employees for work they already are required to complete as a part of their County employment.

Status: Implemented

For our follow-up engagement, we obtained a current MCIA employee list to determine if any current MCIA employees work for Middlesex County. We determined that MCIA does not employ any individuals also employed by Middlesex County. Therefore, we concluded that MCIA does not pay any county employees for work they are required to complete as part of their county employment.

Recommendation 15

Using State and County guidelines, develop a policy concerning the funding of employee recognition initiatives. For example, such initiatives could be financed with non-public funds such as donations or employee contributions.

Status: Implemented

Our initial audit found that MCIA was funding social functions for and providing gifts to MCIA employees. In response to our audit, MCIA developed a policy concerning funding employee recognition initiatives. The policy states that:

“If MCIA management finds that an employee recognition event is warranted, the request will be presented to the Executive Director. The Executive Director will obtain a review of the request from MCIA Counsel to confirm that such request complies with any applicable law and from the CFO to confirm that funding for the event is available. If compliance with applicable law and funding is confirmed, the request shall be presented to the Personnel Committee for approval.

The CFO will review the ability to finance any approved event with non-public funds such as donations or employee contributions and the MCIA will use such funds where available and appropriate.”

Reporting Requirements

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

We thank the management and staff of MCIA for the courtesies and cooperation extended to our auditors during this engagement.

Very truly yours,



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

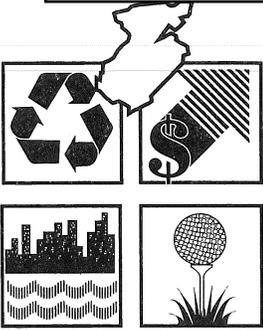
- c. Carol Barrett-Bellante, Freeholder and MCIA Liaison
Richard Pucci, Executive Director
Lory L. Cattano, Chief Financial Officer

MIDDLESEX COUNTY IMPROVEMENT AUTHORITY

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October 8, 2014

Mr. William P. Challice, CIA,CFE,CGFM
Director
Audit Division
Office of the State Comptroller
P.O. Box 024
Trenton, NJ 08625-0024

Dear Mr. Challice:

In response to your September 18, 2014 letter, I appreciate the opportunity to respond to the follow-up of the prior audit report, *The Middlesex County Improvement Authority, Selected Procurement and Financial Operating Practices*, and I request this response be attached to the final follow-up report.

Implementation of all fifteen initial recommendations has been achieved by the MCIA, the only exception being one partial implementation due to existing collective bargaining agreements that must be adhered to.

The MCIA stands by its 20 years of sound financing programs, and I point to the original audit report where the Office of State Comptroller (OSC) stated "Our testing revealed no significant exceptions related to the Authority's financing practices."

For the follow-up audit, representatives from the Office of State Controller were in attendance at the MCIA administrative offices from May 5 – May 30, 2014 for approximately twelve full and partial days. During this time, the OSC staff was provided unrestricted access to requested records. MCIA personnel provided access to accounting, purchasing, contract, transaction and policy files and records, answered questions and communicated with on-site and Trenton OSC staff while performing regular duties. It should be noted that OSC presence at this point in time did result in a reschedule of the annual MCIA audit to a later time period.

The MCIA stands by its *Response to State of New Jersey Office of the State Comptroller MCIA Audit* of June 11, 2012 that pointed out:

- The MCIA's management of the Roosevelt Care Center in Edison has enabled the county to lower the annual subsidy, with CPI annual adjustments, from \$18 million in 1995 to \$7.5 million in 2010, a current property tax savings of \$10.5 million annually.
- From 1995-2009, the MCIA-administered recycling program has achieved the state mandate of a 60% recycling rate for 13 years, the most of any of the 21 counties in the state.
- The MCIA's efforts have made it possible for the county to acquire more than 7,200 acres of land for preservation as open space
- The MCIA's management and maintenance of the county golf courses in East Brunswick (36 holes), Piscataway (18 holes) and Plainsboro (18 holes) have provided county residents quality courses with among the lowest golf rates in the state.
- The MCIA's ability to issue bonds has enabled the construction of special needs schools, senior, student and residential housing projects, municipal facilities, a youth detention center and a hotel/conference center, as well as provide financing for the acquisition of capital equipment, saving county property taxpayers millions of dollars.

The MCIA will continue to deliver quality affordable services to Middlesex County residents. In partnership with the Middlesex County Board of Freeholders, we will utilize the County's highest AAA bond ratings to provide savings to taxpayers while providing goods and services. The expertise, professionalism, consistency and the transparency of operations that have been in effect for 24 years at the MCIA will be maintained in order to continue to improve the lives of Middlesex County's more than 800,000 residents.

Very truly yours,



Leonard J. Roseman
Chairman

CC: Freeholder Carol Barrett Bellante
Executive Director Richard Pucci
CFO Lory Cattano