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State Comptroller audit lays out blueprint for bringing fiscal order to Atlantic City's government

Audit uncovers waste in all corners of city government; identifies millions in savings

A State Comptroller audit of Atlantic City government uncovered a pervasive waste of tax dollars, from hundreds of thousands of dollars spent on unauthorized employees with no apparent job responsibilities to millions of dollars lost to fiscal mismanagement.

The Office of the State Comptroller (OSC) audit, released today, lays out a road map for improving fiscal operations in almost every area of Atlantic City government, including payroll and personnel, grants management, information technology, mercantile licensing and the police department. Each of the audit's 40 recommendations must now be incorporated by the city into a corrective action plan.

"We conducted an expansive audit of Atlantic City government and just about everywhere we looked we found significant problems," State Comptroller Matthew Boxer said. "There is simply too much at stake in Atlantic City to allow this type of fiscal mismanagement to continue. Atlantic City's casino industry is an economic generator for its residents and for the entire state. Unless there is fiscally responsible government in Atlantic City, the full potential of that economic generator will not be realized."

The OSC audit, Boxer said, identifies opportunities for Atlantic City to save or generate significant dollars. For example, the city employs 11 individuals who serve as full-time aides to the city's nine part-time City Council members at an annual cost of nearly \$484,000. However, New Jersey law does not authorize municipalities such as Atlantic City with a population less than 200,000 to appoint such Council aides. The audit found these aides have little to do and there are few controls over their time and attendance.

Intervention by OSC auditors also led to the city shelving a plan to pay three police officers more than \$530,000 in pre-retirement sick leave buyouts not required by any collective bargaining agreement. In one instance, an officer's earlier buyout would have been adjusted so it could be calculated at his now higher rate of pay.

Opportunities lost

Property foreclosures represent another savings opportunity for the city, the audit found. The city holds approximately 218 properties eligible for foreclosure, with a value totaling \$9 million. To resolve the foreclosure backlog, the city had hired a foreclosure attorney for \$125,000, but the attorney was immediately reassigned to the mayor's office and the contract expired without any foreclosure work being performed.

The OSC audit also identified \$8 million in unexpended bond proceeds issued for various city projects dating back as far as 1998. The audit recommends the city evaluate whether the funds should be transferred to other projects or the outstanding debt retired.

The city's decision to outsource its information technology (IT) operations has proved costly and inefficient, the audit found. The city outsourced IT functions to the New Jersey Institute of Technology and its subcontractor, ultimately agreeing to pay a total of \$2,477,229 for IT contracts awarded without a competitive bidding process. The OSC audit found that if the city were instead to hire one or two qualified individuals to oversee IT operations, it could experience substantial savings while benefitting from having a full-time IT staff available on a daily basis.

One role for such staff would be to oversee the city's IT assets, which currently are not being properly safeguarded. From computer equipment records, OSC auditors selected 14 pieces of equipment in City Hall for review and found four of the items were missing, with neither NJIT nor the city able to locate them.

Extended sick leave and other wasteful payments

The audit also criticized the city police department's program concerning extended sick leave, which is sick leave that extends beyond 15 consecutive working days and can last as long as a year. The city places no cap on the amount of times an officer can be absent due to extended sick leave, nor does it define the types of injuries or illnesses that would entitle an officer to take such leave. The city also did not have a medical review board in place to evaluate and approve extended sick leave claims. The result has proven costly. Of 378 officers in the police department, a total of 104 took extended sick leave between 2006 and 2008, 35 of whom took extended leave multiple times. To the 15 officers who took the most extended leave time, the city paid a total of \$1,829,508 during their leave time.

Other wasteful practices allowed by the city included arrangements that gave senior level police officers sick-time buyouts before retirement. One round of \$130,590 in sick-time cash outs for two officers was approved despite the objections of the city budget officer, who warned that police department funds were near depletion.

The audit also found:

- The city was forced to pay the Internal Revenue Service \$41,534 in back taxes in 2009 after it failed to value as "fringe benefits" the unrestricted personal use of city vehicles assigned to City Council members and other city officials. The city did not recoup any money from the employees who actually owed the taxes.

- Of the eight City Council members assigned a city vehicle, none maintained a log regarding vehicle use. Requirements to submit vehicle travel logs were deleted when the city manual was recently amended. As a result, the city is unable to determine the purposes for which its vehicles are being used.
- The city obtained questionable fiscal benefit from its contract with a grants consultant. Monthly retainers paid by the city to the outside consultant doubled in June 2008, without an expansion of the consultant's duties and despite a decrease in the consultant's production.
- The city spent more than \$195,000 in 2007 on a "biometric clock" system that was supposed to increase accountability in tracking employee time and attendance. Instead, the system has yet to be installed throughout all city departments and goes unutilized by more than half of those employees who are supposed to use the system. All city employees continue to be paid based upon time reported on manual timesheets, which OSC auditors found sometimes differ from the biometric records.
- The city allowed its unclassified employees to take unlimited sick time until August 2008, when it amended its policy to allow 15 days of sick time. It then granted employees a credit for any unused sick time from previous years, but based that credit on employee-reported information the city had no way to verify.
- The city's payroll and personnel practices are inadequate, resulting in the potential for abuse. For example, one city employee whom the mayor had described as volunteering his time for the city was found by OSC staff to be on the payroll receiving a salary of \$51,500. The city also had waived the required 60-day waiting period for the individual's eligibility for medical benefits. After an inquiry from OSC auditors, the employee was removed from this position which had not been funded by the City Council.
- The city is not effectively enforcing its Municipal Code regarding business license suspensions and revocations. Further, the city issued licenses to jitney drivers without evidence of required criminal history checks.
- The city has failed to address audit recommendations repeatedly made by its external auditor. Seven audit findings have been carried forward every year since 2004 without resolution.

"Our audit spells out basic and prudent steps to get Atlantic City's fiscal house in order," Boxer said. "These are steps that are achievable. We will follow up to make sure they are steps that are taken."

The city's response to the OSC audit indicates that the city already has taken steps to address several of the findings in the report, particularly in the areas of developing an exit strategy for the IT consultant, terminating the contract of the grants consultant, and re-instituting a medical review board for extended sick leave claims made by police officers.