STATE OF NEW JERSEY
OFFICE OF THE STATE COMPTROLLER

THE TOWN OF HARRISON

SELECTED FISCAL AND OPERATING PRACTICES

Marc Larkins
Acting State Comptroller

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PA-22

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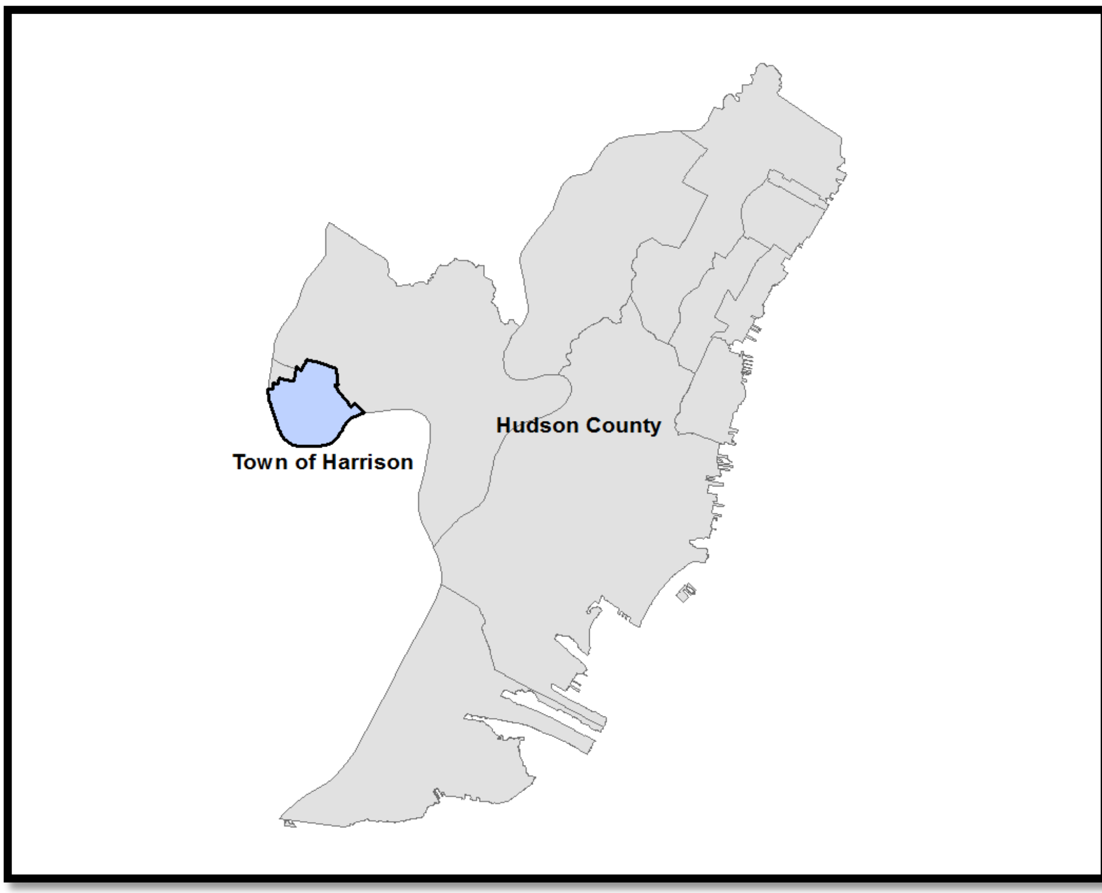
BACKGROUND, AUDIT OBJECTIVE AND METHODOLOGY

The Town of Harrison (Harrison or Town) is located on the western edge of Hudson County, along the eastern banks of the Passaic River. According to the 2010 United States Census, Harrison has a population of 13,620 and covers a total area of 1.3 square miles. Its specific location in Hudson County is depicted below.



Harrison's government includes a Mayor and a Council comprised of eight members. The Mayor is elected for a four-year term. Council members are elected to serve four-year terms on a staggered basis.

As reported in its annual audit, Harrison's appropriations for calendar year 2011 were $44,250,520 and its actual expenditures were $42,100,713. According to

Harrison's 2012 audit, the total appropriations for 2012 were $39,449,336 and actual expenditures were $36,956,811.

According to the 2010, 2011 and 2012 Memoranda of Understanding between Harrison and the New Jersey Department of Community Affairs' Division of Local Government Services (DLGS), the Town is in "serious fiscal distress," and is subject to monitoring by the Department of Community Affairs (DCA). In 2009, Harrison received Special Municipal Aid, a municipal grant program offered by DCA. Subsequently, the Special Municipal Aid program along with other municipal grant programs were consolidated into the Transitional Aid to Localities program. The following chart shows the Special Municipal Aid and the Transitional Aid provided to Harrison from 2009 to 2012:

Year	Amount	Program
2009	$5,300,000	Special Municipal Aid
2010	$1,500,000	Transitional Aid to Localities
2011	$4,500,000	Transitional Aid to Localities
2012	$1,950,000	Transitional Aid to Localities
Total	$13,250,000	

Other State aid received by Harrison during the 2009-2012 time period was as follows:

Year	Consolidated Municipal Property Tax Relief Aid
2009	$1,049,894
2010	$511,940
2011	$343,719
2012	$1,544,648
Total	$3,450,201

According to the 2003 Harrison Waterfront Redevelopment Plan, in 1997 Harrison's Council declared the 250-acre former industrial area in the southern part of the Town along the Passaic River an "area in need of redevelopment." In 1999, the Harrison Redevelopment Agency was formed and designated by the Town to undertake redevelopment projects within the Waterfront Redevelopment Area. According to the 2012 Amended Harrison Waterfront Redevelopment Plan, the subsequent transformation of the area into a transit-oriented development has seen the construction of a soccer stadium, a 1,440-space parking structure, various mixed-use commercial and residential projects, a 165-room hotel, the demolition and cleanup of formerly contaminated industrial sites, a waterfront walkway, and major capital investments and upgrades to the local train station.

Although in recent years Harrison's credit rating had declined, in the past two years Moody's Investors Service upgraded Harrison's credit rating twice, most recently on March 5, 2013. According to that rating update, the upgrade was the result of Harrison's "improved financial flexibility" demonstrated "by positive fiscal 2012 unaudited financial results, augmented reserves and excess levy capacity above the property tax levy cap."

The objective of our performance audit was to evaluate controls over selected fiscal and operating practices of Harrison and to identify potential cost savings and efficiencies. Our audit covered the period January 1, 2009 through December 13, 2013.

Specifically, we reviewed Harrison's:

- accounting information systems,
- governance structure,
- use of professional services contracts,
- personnel practices,
- collective bargaining agreements,
- health and property/casualty insurance,
- technology infrastructure/utilization, and
- debt service payments/redevelopment projects.

As part of our audit procedures, we reviewed applicable statutes, regulations, policies and procedures, collective bargaining agreements, Council meeting minutes, prior audit reports and budget reports. We also interviewed pertinent Town personnel to gain an understanding of the processes through which they conduct their operations. In view of the special State aid consistently received by Harrison, we used several State employee benefit policies as benchmarks during our audit testing.

This audit was performed pursuant to the State Comptroller's authority set forth in *N.J.S.A.* 52:15C-1 et seq. We conducted our audit in accordance with generally accepted government auditing standards applicable to performance audits. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

SUMMARY OF AUDIT RESULTS

Our audit identified weaknesses in Harrison's fiscal and operating practices as well as several opportunities to achieve cost savings. For example:

- From 2009 through 2011, Harrison paid its employees approximately \$2.3 million in various lump sum payouts and more than \$3 million in "longevity payments" while the Town was in fiscal distress and receiving State aid. These employee payments exceeded the amounts available to State employees.

- Harrison had not evaluated the relative costs and benefits associated with joining the State Health Benefits Program (SHBP) instead of using a private insurance carrier. Had it participated in SHBP, Harrison could have saved a total of approximately \$5.8 million from 2009 to 2012.

- Harrison's collective bargaining agreements provide for health benefits coverage for surviving spouses of Town employees and their eligible dependents. From 2009 through 2011, Harrison paid \$902,199 for those benefits. In contrast, the State does not provide such coverage for State employees.

- Harrison provides multiple additional employee benefits not required by or referenced in the applicable collective bargaining agreements.

We make 13 recommendations to address the weaknesses we identified.

AUDIT FINDINGS AND RECOMMENDATIONS

Personnel Practices

Harrison entered into collective bargaining agreements providing for millions of dollars in comparatively excessive benefits and payouts for Town employees. Several of Harrison's personnel practices are either contrary to or not clearly defined in those agreements.

Harrison has negotiated collective bargaining agreements with the Civil Service Employees Association (Civil Service), Department Heads Association (Department Heads), Firemen's Benevolent Association (Firemen), Policemen's Benevolent Association of New Jersey (Policemen) and Fraternal Order of Police Superior Officers of New Jersey (Superior Officers), each of which represents different classifications of Harrison employees. Each of these bargaining agreements contains terms and conditions concerning employee leave time and compensation. Also, during our audit period Harrison negotiated individual employment agreements with its Fire Chief and Police Chief. All seven of Harrison's bargaining agreements expired on December 31, 2011. As of the writing of this report, they are still in the process of being renegotiated.

Lump Sum Payouts

In accordance with Harrison's collective bargaining agreements, upon retirement many Harrison employees are entitled to lump sum payouts representing unused sick and vacation time. As a result, Harrison owed/owes a total of $4,161,393 in lump sum payouts to 57 employees who retired between 2008 and 2011. This amount is payable in installments to be made from 2009 to 2015. Of this amount, $2,262,474 was paid out during 2009, 2010 and 2011.

We selected a judgmental sample of 12 of the 57 retirees who received these lump sum payouts to determine how Harrison calculated the amounts due to each retiree. According to Harrison's calculations, the lump sum payouts for these 12 employees totaled more than $2.2 million. Approximately $1.1 million of that total is owed for unused sick time, with individual payouts ranging from approximately $55,000 to $200,000. In contrast, the State limits unused sick leave retirement payouts to $15,000. Savings under the State policy would have been over $900,000. Over $950,000 is owed to these 12 individuals for unused vacation time, with individual payouts ranging from approximately $10,000 to $170,000. The larger payouts are the result of the Firemen's collective bargaining agreement containing no vacation accrual limit. In some cases, retired Firemen cashed out more than 275 unused vacation days. In contrast, the State limits vacation carryover to one year's accrual.

Furthermore, upon reviewing the payout calculations, we found that in contrast to policies applicable to State employees, Harrison did not prorate vacation and sick time for the year in which the employee retired, except for Firemen's vacation time after 2010. Similarly, except for Firemen, this practice was not required by the applicable collective bargaining agreements. In addition, we found that prior to 2011 Harrison made a series of calculation errors resulting in overpayments totaling approximately $30,000.

Longevity Payments

Pursuant to Harrison's collective bargaining agreements, all Town employees except the Police Chief receive annual longevity pay ranging from 2 percent to 14 percent of their base salary, with Department Heads capped at 12 percent. For example, employees who have worked for Harrison for at least ten years receive an annual 6 percent longevity pay in addition to their base salary; employees who have worked for Harrison for at least 15 years receive an annual 8 percent longevity pay in addition to their base salary; and employees who have worked for Harrison for 20 years receive an annual 10 percent longevity pay in addition to their base salary.

From 2009 through 2011, Harrison paid out a total of $3,039,693 in longevity payments to its employees, in addition to any regular raises or cost of living adjustments received by each employee. State employees are not entitled to such payments and Harrison was not able to provide compelling justification for such payments while receiving special State aid as a result of its financial distress.

Collective Bargaining Agreements

During our review of lump sum payouts and other employee benefits, we also identified a series of benefits Harrison pays to its employees that are inconsistent with or not specified in its collective bargaining agreements. For example:

- Harrison allowed its Civil Service employees a one year carry-over of vacation time even though the applicable collective bargaining agreement specifically states that none is allowed except in certain situations inapplicable here.

- The personal leave section of the collective bargaining agreements makes no mention of a carry-over limit or whether any accrued time is payable upon retirement. In practice, Harrison allowed carry-over of personal leave time, combined it with vacation time, and paid it out upon retirement.

- The ability of Harrison employees to obtain from the Town reimbursement for Medicare Part B premiums paid to the federal government is not referenced in any of the collective bargaining agreements. In practice, however, Harrison is providing reimbursement for these payments, through which employees can receive Medicare coverage.

- Only one collective bargaining agreement sets forth the circumstances under which Harrison will provide health insurance coverage for its retirees. In practice, Harrison provides generous health benefits to retired members of all of the various bargaining units, even though the pertinent municipal ordinance covers only the one category of employees. Harrison told us it plans to clarify this issue during collective bargaining negotiations.

- All of the collective bargaining agreements call for Harrison to provide a $2,500 term life insurance policy for its "active" employees. In practice, however, the Town is paying for this benefit for both its active and retired employees.

Recommendations

1. Create a specific and consistent payout calculation method for lump sum payouts, stating exactly how each employee category is to be paid, including hourly rate calculations, proration calculations, carry-over limits, etc.

2. Using appropriate benchmarks, seek to negotiate collective bargaining agreements to eliminate excessive benefits and payouts.

3. Provide greater clarity in the collective bargaining agreements as to employee benefit commitments and abide by those provisions.

Health Benefits and Life Insurance

Harrison had not evaluated the costs associated with joining SHBP, resulting in $5.8 million in additional costs during the four-year period ending December 31, 2012.

Cost Savings Through SHBP

Harrison provides health benefits to its employees, retirees and their surviving dependents through a private health benefits program. We noted that during 2009, 2010 and 2011 Harrison did not perform any analysis comparing the cost of its private plan to the cost of participating in SHBP, which is a health benefit program offered by the State to local governments and other public employees.

For the three-year period of 2009 to 2011, Harrison's health benefits program was comprised of an average of 237 active employees, 96 retired employees and 36 surviving dependents. Based on these enrollment numbers and the premium rates offered by SHBP, we determined the average cost Harrison would have incurred if it had participated in SHBP and compared it to the cost Harrison incurred from its private plan during 2009, 2010 and 2011. We found that Harrison could have saved approximately $4.7 million over the three-year period ($1.6 million, $1.8 million and $1.3 million, respectively for 2009, 2010 and 2011) if it had enrolled in SHBP. Similarly, based on available data, we estimate that Harrison would have saved approximately $1.1 million in 2012, for a combined savings of approximately $5.8 million from 2009 to 2012.

Pursuant to a resolution passed by Harrison's Council during the course of our audit work, Harrison has now joined SHBP effective August 1, 2013.

Health Benefits for Retirees

For State employees, the State does not pay for health benefits coverage for spouses, civil union partners or domestic partners of deceased retirees. However, Harrison's collective bargaining agreements provide for health benefits coverage for such individuals and for their eligible dependents. Harrison paid $902,199 for such health benefits coverage from 2009 to 2011.

Harrison's criteria for retirees to qualify for paid health benefits from the Town include several options. One of the options requires the employee to be 62 years or older at the time of retirement with at least 15 years of service with Harrison. For the period 2009 to 2011, Harrison paid $532,374 in post-employment health benefits to 14 such retirees who had between 15 and 24 years of service with Harrison. In contrast, the State of New Jersey pays health benefit costs only for retirees with 25 years or more of service credit in a State-administered retirement system.

We also noted that from 2009 to 2011 Harrison paid $21,488 in health care premiums for three deceased retirees. According to Town officials, they contacted its insurance carrier, requested that the deceased individuals' enrollment be terminated and obtained the corresponding credit.

Additional Life Insurance Benefit

All active employees in the New Jersey public employees' pension systems receive life insurance for which the employer pays. Harrison's employees participate in these State pension plans and receive this life insurance.

We noted that Harrison paid $54,881 from 2009 to 2011 for an additional term life insurance policy for its active employees and retirees. As referenced previously, Harrison's collective bargaining agreements provide for a $2,500 term life insurance policy for the Town's active employees, but not to its retirees.

Recommendations

4. Evaluate annually the costs and benefits of participating in SHBP and consider continuation in SHBP based on that evaluation.

5. Through the collective bargaining process and using appropriate benchmarks, seek appropriate publicly funded health benefits for employees upon retirement.

6. Periodically request an updated listing of retirees and their status (living or deceased) from the State's Division of Pensions and Benefits and cross check the listing with Town data to ensure benefits are not being improperly paid on behalf of deceased individuals.

7. Through the collective bargaining process and using appropriate benchmarks, seek to eliminate the additional life insurance benefit.

Debt Service/Redevelopment Projects

Harrison did not receive payments in lieu of taxes as anticipated, resulting in the Town having to borrow additional money to meet its minimum debt service payments.

Harrison's debt service obligations steadily increased from 2009 to 2011. Our examination of local bond ordinances revealed that a significant portion of that municipal debt is related to Harrison's redevelopment projects.

The most significant of the bonds issued by Harrison relating to its redevelopment area was Bond Ordinance No. 1133 (Bond 1133), which authorized Harrison to issue $40 million in bonds or notes for the acquisition of property within the Waterfront Redevelopment Area. The proceeds of these bonds were to be used to acquire land, remediate environmental conditions on the land, and lease the clean land to permit the construction of a soccer and entertainment stadium within Harrison's redevelopment area. Harrison anticipated the construction of residential units within the redevelopment area that would produce payments in lieu of taxes (PILOTs) sufficient to pay the debt service for these bonds. The bonds were issued in 2006 and Harrison's first payment became due in 2010.

The redevelopment in Harrison was, however, delayed by a series of lawsuits and the economic recession, and Harrison did not receive PILOT revenues from the projects as anticipated. The agreements between the developers and Harrison did not include a clause protecting the Town from financial burdens resulting from delays in construction or requiring the developers to make the minimum debt service payments if the PILOTs were insufficient to cover that debt service.

Consequently, Harrison adopted Bond Ordinance No. 1228 (Bond 1228), which authorized the issuance of bonds to refinance $6,215,000 in redevelopment-related debt service payments due in 2010 and 2011 that the Town had anticipated it would pay using PILOT revenue. Ultimately, the total cost for issuing Bond 1228 will be $11,479,693 over a 25-year period, which includes interest payments of $5,110,693. The additional interest costs associated with the issuance of Bond 1228 has created a greater financial burden for Harrison, but results in no additional services or assets being obtained.

According to Town officials, as of 2012 Harrison now is receiving taxes from the soccer and entertainment stadium as well as other PILOT revenues that are sufficient to make its debt service payments.

Recommendation

8. Structure any future financial agreements with developers in a way that requires completion of projects within a certain time frame and imposes penalties for failing to meet deadlines.

Procurement

Some of Harrison's procurement practices are deficient.

Procurement of Insurance

Since 2006, Harrison has been a member of the Garden State Municipal Joint Insurance Fund (GSMJIF) for property damage, workers' compensation, motor vehicle liability and general liability insurance coverage. In December 2008, the Mayor and Council voted to renew membership in the GSMJIF for three more years. However, Harrison did not follow the statutory procedure for awarding a contract for insurance in that it did not solicit quotations from any other insurance providers.

While the Town Clerk/Attorney contended to us that no other quotations must be solicited when a municipality obtains insurance through a joint insurance fund such as GSMJIF, *N.J.S.A.* 40A:11-6.1(a) makes clear that there is no such exception for joint insurance fund services.

Certification of Availability of Funds

Pursuant to *N.J.A.C.* 5:30-5.4(a)(1), the chief financial officer (CFO) or other certifying finance officer of a local government agency is required to certify the availability of funds for each contract awarded by the agency, including in that certification the specific line appropriation of the agency budget or ordinance to which the contract is to be charged.

Upon reviewing eight of Harrison's professional services contracts, we found that seven required a Certification of Funds. For all seven contracts the Town's CFO certified that funds were available. However, for six of them there was no indication of the specific line item appropriation of the municipal budget to which the contract would be charged. In response to our inquiries about this issue, Town officials stated that they will put procedures in place to ensure compliance with certification-of-funds requirements.

<u>Reason for Awarding Contract</u>

N.J.S.A. 40A:11-5(1)(a)(i) requires that in awarding professional services contracts, "The governing body shall in each instance state supporting reasons for its action in the resolution awarding each contract." We found that Harrison's resolutions for the eight professional services contracts we reviewed merely stated that the Mayor and Council are "desirous of accepting the proposals under the fair and open process." Because the Council failed to set forth its rationale or justification for the awards in its resolutions, the resolutions do not satisfy the requirements of *N.J.S.A.* 40A:11-5(1)(a)(i).

Recommendations

9. Adhere to *N.J.S.A* 40A:11-6.1(a) procedures for the procurement of insurance, including solicitation of at least two quotations.

10. As required by *N.J.A.C.* 5:30-5.4, designate the specific line item appropriation(s) of the official budget or the ordinance to be charged when certifying the availability of adequate funds for each contract.

11. State in resolutions awarding each professional services contract the reasons for awarding the contract to the selected vendor, as required by *N.J.S.A.* 40A:11-5(1)(a)(i).

Internal Controls

Harrison did not comply with applicable laws concerning unclaimed property and does not have effective written policies and procedures over its Information Technology function.

Compliance with Unclaimed Property Requirements

The Uniform Unclaimed Property Act, *N.J.S.A.* 46:30B-1 et seq., states that abandoned property in the possession of a third-party should be remitted to the State as unclaimed property. With regard to payments owed by government entities, any property remaining unclaimed for more than one year after it became payable is, by law, presumed abandoned.

Our review of Harrison's monthly Council meeting minutes found that in 2011 the Town authorized the cancelling of outstanding checks totaling $122,318. These checks were issued between 1999 and 2009 from various municipal accounts. Harrison officials were unaware of applicable laws pertaining to such abandoned property.

Harrison should attempt to contact the owners of these funds and return the funds to them. If Harrison is unable to return the funds to their owner, by law these amounts are to be escheated to the State.

Information Technology

We reviewed Harrison's information technology (IT) management and control environments focusing on user access controls, accountability and information security.

Our findings included the following:

- There are no written policies or procedures governing user access.

- There are no written policies or procedures governing password requirements, such as the number of characters or required frequency of change.

- There are no written procedures concerning notification to the IT system administrator to deactivate a user's account upon an employee's termination.

In the absence of effective written policies and procedures, an organization becomes vulnerable to unauthorized access to critical information.

Recommendations

12. Treat outstanding checks remaining unclaimed for more than one year as abandoned and either return to the owner or escheat to the State as required by law.

13. Develop, adopt and adhere to written user access control policies and procedures for the Town's IT systems.

REPORTING REQUIREMENTS

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

Harrison's response did not fully agree with some of our findings and conclusions. However, in general, Harrison officials indicated they had either already taken steps, or planned to take steps, to implement our recommendations.

The Office of the State Comptroller is required by statute to monitor the implementation of our recommendations. To meet this requirement, Harrison shall report to the Office of the State Comptroller, within 90 days of the date of this report, the corrective action taken to implement the recommendations contained in this report and, where not implemented, the reason therefor. *N.J.A.C.* 17:44-2.8(a).

Town of Harrison Response
to
Office of the State Comptroller Report

The Town of Harrison (the "Town") hereby responds to the "Town of Harrison, Selected Fiscal and Operating Practices" report as prepared by the Office of the State Comptroller ("OSC"). The OSC commenced an audit approximately 2 ½ years ago in June of 2011. Since that time, the Town and its limited personnel fully cooperated in every way possible with the voluminous document requests, numerous meetings, interviews, emails, etc. The Town was pleased to have the OSC here as a part of our continued efforts to deliver municipal services to the public at the lowest cost possible.

The Town has been in the Distressed Cities/Transitional Aid program, administered by the State of New Jersey, Department of Community Affairs, Division of Local Government Services ("DLGS"), for more than 10 years. As part of the program, the Town has been under DLGS supervision, which includes budgetary, fiscal and operational oversight. The Town has its own dedicated Fiscal Oversight Officer. Under said program, the Town cannot hire, promote, collectively bargain, contract for professional/other services, etc., without the consent of the Director of the DLGS.

As a part of the program, the Town must annually sign a Memorandum of Understanding which requires, among other things, that the Town implement any cost-saving measures that the DLGS recommends. Not only has the Town complied with this requirement, but it has gone well beyond by implementing three substantial layoff plans in 2010/2011. These plans have resulted in a 37% reduction in personnel, translating into recurring annual savings of several million dollars. The Town has implemented many other cost-saving actions (*e.g*., eliminating health benefits for elected officials, eliminating high salary positions and covering the aforementioned through inter-local agreements, etc.), as well as revenue generating actions (*e.g*., redevelopment of the Harrison waterfront, entering into inter-local agreements for shared services, etc.). Attached hereto is a copy of the DLGS First Annual Report, "Actions that Saved Taxpayer Dollars" 2011.

Additionally, 2013 saw the culmination of several years' worth of effort to transition contractually-mandated private health care insurance into the State Health Benefits Program. This move, which took extensive negotiations with the Town's unions, is projected to save the Town approximately $1M annually.

The Town is always looking for cost-saving measures and, therefore, welcomed the OSC audit. During the lengthy audit, the OSC auditors made scores of suggestions for cost-saving and operational improvements, which their further review revealed were already executed/implemented by the Town. The OSC did list findings and 13 subsequent recommendations in its report. The Town does not necessarily agree with the context in which the OSC presented the findings; however, it is not appropriate or effective to address the findings line by line. The Town does find it appropriate to address each of the 13 resulting recommendations, as follows.

1. OSC RECOMMENDATION: Create a specific and consistent payout calculation method for lump sum payouts, stating exactly how each employee category is to be paid, including hourly rate calculations, proration calculations, carry-over limits, etc.

    TOWN RESPONSE: In December of 2010, the Town appointed a new CFO. In light of the numerous retirements in 2011, the CFO created a standardized Excel spreadsheet to accurately calculate the terminal leave payments without error. The OSC reviewed this spreadsheet, and stated it was proper.

2. OSC RECOMMENDATION: Using appropriate benchmarks, seek to negotiate collective bargaining agreements to eliminate excessive benefits and payouts.

    TOWN RESPONSE: The Town does not agree that it pays “excessive” benefits. In particular, the report sites longevity as being excessive simply because it is not applicable to State employees, the “benchmark.” However, the report does not provide a side by side comparison of State and local contracts. There are many State benefits that are enjoyed by State employees that are not provided to Harrison’s unions. Further, a comparison of Harrison’s base pay plus benefits to the rest of Hudson County and surrounding locales shows that Harrison employees are generally below the average. Every benefit listed in the contracts has existed for years and is commensurate with contracts in similar municipalities. Notwithstanding this, the Town, upon the next round of collective bargaining negotiations, will seek the elimination of certain benefits. In fact, during the most recent negotiations, the Town negotiated out expensive health care benefits, sick time payouts for the fire department, and vacation time accrual (already in place for police and civilians), secured a reduction of vacation days for department heads, etc.

3. OSC RECOMMENDATION: Provide greater clarity in the collective bargaining agreements as to employee benefit commitments and abide by those provisions.

    TOWN RESPONSE: The Town has had the same labor counsel for the last 30 years. During that time, the Town and the various unions have negotiated both the addition and elimination of contractual items. According to labor counsel, not all of these items need to be part of the written collective bargaining agreement (“CBA”). We believe that the OSC’s report is misleading in that is suggests that benefits are enjoyed that are not memorialized. Just because those benefits are not in the CBAs does not mean that they were not dually adopted and implemented via resolutions, ordinances, arbitration awards, side bar agreements, etc. However, as a best practice, we have commenced working with our labor counsel to include everything possible and appropriate in the CBAs.

4. OSC RECOMMENDATION: Evaluate annually the costs and benefits of participating in SHBP and consider continuation in SHBP based on that evaluation.

    TOWN RESPONSE: As pointed out in the body of the OSC report at page 10, the Town joined the SHBP effective August 1, 2013. What was not pointed out was the fact that the Town could not unilaterally switch to the SHBP during the term of a CBA. The previous CBA ran from 2007 to 2011. During that period, comparisons between the Town’s private health insurance and the SHBP revealed that both plans were competitive.

However, this changed during the 2013 renewal, whereby the private carrier quoted an increase in excess of 25% (as compared to the 2011 reduction in premium and 2012 minimal increase). That, coupled with the State's enactment of Chapter 78 requiring substantial employee contributions based on the cost of the premium, enabled the Town to negotiate the change. Further, it should be noted that the Town, prior to the imposition of health insurance contributions pursuant to Chapter 78, secured through arbitration contributions toward health insurance costs from the police and fire unions. Harrison was one of the first municipalities to do this, and it was negotiated into the CBAs of the Town's civilian unions.

As recommended, the Town will continue to evaluate the cost of the various options of health care coverage, including remaining in the SHBP.

5. OSC RECOMMENDATION: Through the collective bargaining process and using appropriate benchmarks, seek appropriate publicly funded health benefits for employees upon retirement.

   TOWN RESPONSE: *N.J.S.A.* 40A:10-23 permits municipalities to pay for retiree health benefits under certain circumstances, including for retirees with at least 15 years of service and at least 62 years of age. Should the legislature amend this statute, the Town will comply.

6. OSC RECOMMENDATION: Periodically request an updated listing of retirees and their status (living or deceased) from the State's Division of Pensions and Benefits and cross check the listing with Town data to ensure benefits are not being improperly paid on behalf of deceased individuals.

   TOWN RESPONSE: Notwithstanding the aforementioned layoffs and reductions in staff through attrition (retirements), the Town's records were overall accurate, with only three instances of deceased retirees not being reported to the Town (which have since been corrected). We will be happy to implement this recommendation to request data from the Division of Pensions and Benefits to ensure accurate enrollment.

7. OSC RECOMMENDATION: Through the collective bargaining process and using appropriate benchmarks, seek to eliminate the additional life insurance benefit.

   TOWN RESPONSE: The Town will take appropriate steps to seek the elimination of this $2,500 term life insurance policy.

8. OSC RECOMMENDATION: Structure any future financial agreements with developers in a way that requires completion of projects within a certain time frame and imposes penalties for failing to meet deadlines.

   TOWN RESPONSE: Standardized Redevelopment Agreements (RAs) and Financial Agreements (FAs) were in the process of being developed during the period of the OSC audit, and same were shared with the OSC audit team. The aforementioned RAs and FAs include progressive penalties (including the loss of development rights, financial assessments, and progressively increasing PILOTs) for not meeting development timelines. The Town will not enter into any redevelopment-related agreements that do not contain these types of penalties.

Approximately 10 years ago, the Town took proactive steps to implement redevelopment and replace the decaying industrial areas that were producing very little tax revenue. The initial debt that was taken on by the Town to acquire property, remediate polluted areas, and install infrastructure in the redevelopment area was required in order to attract development. That debt has been absorbed by the Town's budget and subsidized by new PILOT revenues (Hampton Inn, Riverpark, Harrison Station, Panasonic), and conventional taxes (Red Bull Stadium). That debt, as well subsequent redeveloper-related debt, was presented to and approved by the State of New Jersey Local Finance Board for issuance. Such subsequent debt was structured so as the entire amount is paid by the applicable developers, and not subsidized by the Town.

9. OSC RECOMMENDATION: Adhere to *N.J.S.A* 40A:11-6.1(a) procedures for the procurement of insurance, including solicitation of at least two quotations.

   TOWN RESPONSE: When the Town initially joined the Garden State Municipal Joint Insurance Fund (GSMJIF), and subsequently renewed membership therein, it followed the requirements for same as prescribed by the Legislature in *N.J.S.A.* 40A:10-36, et seq., in that it did so by resolution of the governing body.[1] The same process is set forth in the By-Laws of the GSMJIF, which were approved by the Commissioner of the New Jersey Department of Banking & Insurance.

   Notwithstanding the foregoing, when the Town next considers renewal of its membership in the GSMJIF, it will, in addition to the foregoing requirements of *N.J.S.A.* 40A:10-36, et seq., also solicit at least two quotations from private insurance companies.

10. OSC RECOMMENDATION: As required by *N.J.A.C.* 5:30-5.4, designate the specific line item appropriation(s) of the official budget or the ordinance to be charged when certifying the availability of adequate funds for each contract.

    TOWN RESPONSE: The current CFO has encumbered the appropriate funds and provided a general certification of the availability of funds on all prior resolutions. The recommendation to include the specific line item has been implemented.

[1] **40A:10-36. Joint insurance fund to insure against liability, property damage, and workers' compensation; agreement by resolution**
a. The governing body of any local unit, including any contracting unit as defined in section 2 of P.L.1971, c. 198 (C.40A:11-2), ***may by resolution*** agree to join together with any other local unit or units to establish a joint insurance fund for the purpose of insuring against liability, property damage, and workers' compensation … . (Emphasis added).

11. OSC RECOMMENDATION: State in resolutions awarding each professional services contract the reasons for awarding the contract to the selected vendor, as required by *N.J.S.A.* 40A:11-5(1)(a)(i).

    TOWN RESPONSE: With regard to the award of the subject professional services contracts, the Town has complied with *N.J.S.A.* 40A:11-5(1)(a)(i) which, *inter alia*, requires that the resolution "state supporting reasons for its action." The New Jersey Local Finance Board, in LFN AU 2002-2, advised that "supporting reasons for its action" is satisfied with regard to a statutory exception to public bidding by simply "citing the statutory reference." Not only did the Town cite in the subject resolutions[2] that the "contract is being awarded as a 'Professional Services' contract in accordance with N.J.S.A. 40A:11-5(1)(a) of the Local Public Contracts Law," the resolutions further recited that the LPCL requires that the resolution awarding contracts for professional services and the contract itself must be available for public inspection, and that a notice will be published in the official newspaper. These resolutions further go on to describe the "Pay-to-Play" proposal solicitation process that was employed by the Town, whether one or more proposals were received, and the decision that the Mayor and Council is desirous of accepting the proposal of a certain entity.

    Notwithstanding the foregoing, the Town will, in the future, place it its awarding resolutions language regarding the qualitative reasons for its action.

12. OSC RECOMMENDATION: Treat outstanding checks remaining unclaimed for more than one year as abandoned and either return to the owner or escheat to the State as required by law.

    TOWN RESPONSE: The Town will take appropriate steps to implement said recommendation, when appropriate.

13. OSC RECOMMENDATION: Develop, adopt and adhere to user access control policies and procedures for the Town's IT systems.

    TOWN RESPONSE: Areas explored during the scope of the OSC audit included, but were not limited to, the IT strategic plan and budget process, review of IT policies, procedures, standards and guidelines, the IT disaster recovery plan, hardware and software inventory, network configuration, firewalls, active directory, system setup, and telephone maintenance. The above-referenced recommendations regarding user access controls are governed by the various systems themselves. For example, the minimum password requirements for the email system are the following: i) 8-20 characters long, and ii) must contain at least 1 numeric or symbolic character (*e.g.*, Yc-vj4dfw). If the requirements are not met, the email account is not created; the same set of rules applies for changing passwords.

    Outside vendors do not have access to any systems directly. A remote session must be requested by the outside vendor when access is needed. A formal acceptance by the

[2] The language of individual resolutions may vary slightly.

Town for the access is granted, the session is monitored and the access is terminated once the session is complete. All of these actions can be controlled by the Town.

Once an employee is no longer with the organization, all access is revoked including access to email, the network, etc.

All of the current systems and IT practices provide a sufficient level of user access control. However, IT will augment the aforementioned for a more robust solution.

DEPARTMENT OF COMMUNITY AFFAIRS

DIVISION OF LOCAL GOVERNMENT SERVICES

TRANSITIONAL AID TO LOCALITIES PROGRAM

(More than $50 million in State Taxpayer Savings)

FIRST ANNUAL REPORT

December 20, 2011

Overview

Prior to Governor Christie's administration, there were three municipal grant programs offered by the Department of Community Affairs' Division of Local Government Services that had virtually no conditions on grants and no accountability for recipients. In 2010, these programs distributed more than $190 million.

- *Extraordinary Aid disbursed tens of millions of dollars to almost 50 municipalities without any State conditions or municipal commitments to reform.*
- *Special Municipal Aid disbursed approximately $150 million to a dozen municipalities with conditions that existed in name only. Funds were awarded without even modest State staffing levels necessary for proper oversight and enforcement.*
- *Capitol City Aid disbursed more than $30 million to the City of Trenton. Despite statutory requirements that funds be awarded with the same conditions as Special Municipal Aid recipients, the State simply disbursed funds without any pretense of oversight or conditions.*

Governor Chris Christie directed these grant programs to be consolidated into a new program called "Transitional Aid to Localities" (TA). The intent was to allocate scare funds to only municipalities with severe fiscal distress that agreed to pursue structural budget reforms and adhere to State oversight. To move this vision forward, one percent of program funds was set aside for State oversight and enforcement costs. A competitive hiring process was undertaken and more than 50 applicants applied for the program. Thus far, 4 part-time and 3 full-time staff with, cumulatively, hundreds of years of municipal management experience were retained to ensure recipient municipalities are reducing spending and becoming more self-sufficient. Additionally, the Division allocated substantial oversight duties to existing staff who generally work in the areas of budget, procurement, and public safety matters. These staff members have redesigned program applications and strengthened oversight requirements. They enforce conditions placed on aid recipients and worked with municipal officials to help identify and advance solutions that address financial difficulties.

Consolidating grant programs, conditioning grants on fiscal restraint and reforms, and allocating staff to enforce this new paradigm have transformed a culture where there was a sense of complacency and entitlement amongst many recipient municipalities into a culture where reforms and efforts to reduce spending are more aggressively being explored and executed.

Applications for discretionary State funds have been reduced from more than 75 in State Fiscal Year 2010 to fewer than 30 in State Fiscal Year 2011 and only 17 in State Fiscal Year 2012. Most of the almost 75 municipalities that once received aid with little or no oversight chose to take the steps necessary to balance their budgets rather than to apply for aid and becoming subject to oversight.

Furthermore, of the 22 municipalities that successfully applied for Transition Aid in State Fiscal Year 2011, half have graduated the program and no longer need State funding to balance their budgets. In fact, seven of the prior year recipients did not even bother to apply for funding in this most recent year (State Fiscal Year 2012).

By almost any measure, the consolidation has been a success for taxpayers. State spending on these grant programs has decreased from almost $200 million in 2010 to less than $150 million. The following pages explain the consolidation of the aid programs in more detail with specific explanations of oversight activities taking place in municipalities.

A history of municipal aid allocations from the consolidated programs and Transitional Aid is attached as Exhibit A.

Application Process

Any municipality may apply for Transitional Aid. Later this month, municipalities operating on a calendar year basis will be notified of application eligibility and will be provided information about the SFY 2013 Transitional Aid Program. They will also be provided an application and will be notified of an application deadline of February 29, 2012. Municipalities operating on a fiscal year will be notified in July, 2012 of application eligibility and will be provided an application with a mid-September deadline.

Applicants must demonstrate that they are facing financial distress and that they have taken steps to improve their financial situation. They must submit detailed information about staffing levels and personnel actions to obtain savings. They also must submit information about various services and associate user fees. Finally, applications must be accompanied by introduced budgets, documents explaining the budget, the Annual Financial Statement, labor contracts, and certain other documents.

Applicants are reviewed by career professional staff at the Division of Local Government Services and conference calls or meetings are held with the mayor and budget staff of all applicants to discuss applications.

The Division of Local Government Services strives to announce aid allocations in advance of deadlines for pursuing levy elections, so municipalities can plan accordingly.

A Local Finance Notice explaining the application process will be available on the Division of Local Government Services website on or before Friday, December 23, 2011.

Disbursement and Conditions of Aid

Disbursement and conditions of aid awards are set forth in a Memorandum of Understanding. If a municipality does not agree to the terms of the Memorandum of Understanding, no aid will be provided.

The conditions set forth in the Memorandum are valid through the end of the budget year following the year of aid allocation. Municipalities receive 75% of aid allocation upon signing the Memorandum of Understanding and receive the final 25% in the final two weeks of their budget year, but only if they have been in substantial compliance with the terms of the MOU.

The following is a summary of conditions set forth in the MOU.

- The Memorandum requires Division approval for:

1) Hires;
2) Professional and consulting contracts;
3) Newly negotiated PILOTs that do not allocate revenue to local jurisdictions in same percentages as allocated under ordinary property taxes;
4) Receipt of grants when they trigger matching or out year financial obligations;
5) Creation or expansion of programs;
6) Contracts exceeding a certain amount.

- While exceptions are possible where there is demonstrated need, the Memorandum prohibits:

1) Raises other than raises required under contract;
2) Providing health care to part-time officials, elected or otherwise;
3) Certain travel and meal expenses;
4) Discretionary funds for elected officials;
5) Education expenses not directly related to work duties.

- The Memorandum provides for regular reports or communication concerning:

1) Progress on labor contract negotiations (with a warning that failure to keep labor costs under an increase of 2% in future years and failure to bring health care costs down to at least the costs of the State Health Benefits Plan may adversely impact future Transition Aid requests).
2) Governmental rulings and actions that impact the municipality's finances.
3) Judgments or settlements over a certain amount.
4) Complaints pertaining to Open Public Records Act.

- Finally, the Memorandum requires each recipient to prepare a clear plan to reduce their reliance on Transition Aid over a three year period. Plans include:

1) An acknowledgement that the Municipality needs to reduce its reliance on Transition Aid; and
2) A plan to reduce staffing costs for the current fiscal year from previous fiscal year levels through layoffs, attrition, restructuring, or other personnel actions; and
3) A plan to eliminate or reduce the costs of services or activities not deemed essential or that are of low priority; and
4) A plan to maximize recurring revenues, including but not limited to updating fees, fines and penalties, maximizing enforcement of revenue delinquencies, selling surplus land and property, and encouraging sustainable and taxable development; and
5) A plan to address findings resulting from various audits, investigations, and reports with respect to the Municipality, including municipal audits, applicable State Comptroller reports and audits, federal program audits, and other audits as identified by the Director.

Based on conditions unique to certain municipalities, special conditions may be included in a particular municipality's memorandum. Paterson's Memorandum requires sewer fees to be brought into line with expenses to address a deliberate deficit that causes State taxpayers to subsidize their sewer use. Trenton's Memorandum contains a provision establishing a special hiring procedure for the Business Administrator and department heads to address a situation there where quality managers have not been retained. There are other special conditions as circumstances dictate.

Specific Oversight Activities

The following pages document some of the specific oversight activity undertaken by the Division in specific municipalities. It is only a partial listing. The listings do not repeat standard requirements (for example: adopting Pay-to-Play restrictions and at least having a fair and open process for all vendor selections) and standard prohibitions (for example: bans on certain travel, elimination of health benefits for part-time employees, etc.) as set forth in the Memorandum.

In addition to the specific oversight activities and associated cost savings documented in the following pages, enhanced Division oversight and enforcement undoubtedly causes some municipalities to improve their practices and avoid inappropriate activities that might occur without monitoring. For example, certain municipalities whose procurement practices have a history of problems have begun to pay closer attention to adhering to procurement requirements so that necessary Division approvals under the Memorandum can be obtained. Similarly, the Division has taken a firm stance on not allowing for raises and promotions unless essential and as part of a plan to achieve broader savings. As a result, municipalities generally rarely request to give employees yearly raises and promotions that may have been more prevalent during better times.

It is important to remember that savings realized through changes in behavior attributable to a heightened local understanding that actions are under scrutiny may be as important and valuable as the specific oversight activities listed in the pages that follow.

HARRISON

GENERAL OVERSIGHT ACTIVITIES

ACTIONS THAT HELPED THE COMMUNITY BETTER MANAGE ITSELF

ACTIONS THAT SAVED TAXPAYER DOLLARS

- Several DLGS staff met weekly with Harrison in the spring of 2011 to review written weekly progress reports submitted by the Town on adopting a budget that closed a large structural budget deficit for the Fiscal Year 2011. Meetings explored options for closing the gap and coordinated State actions or approvals needed to help close the gap. DLGS guided various savings ideas and ensured that the Town followed through on savings.

- Discovered a situation whereby the Town was providing health benefits for 9 elected officials that cost the tax payer over $200,000 annually. The Town was directed to eliminate or reduce this unsustainable level of compensation and the Town eliminated health benefits for elected officials by resolution, saving taxpayers over $200,000 annually.

- Encouraged the Town to execute a layoff plan to reduce the Police Department by 8 officers and the Fire Department by 12 Firefighters. This resulted in a cost savings of $507,000 for Police and $717,000 for Fire for the last 6 months of 2011. For 2012, the savings for Police is $805,000 and Fire is $1.16 million. The savings was achieved through retirements in lieu of layoffs.

- Due to the layoffs in the Fire Department, the Harrison Fire Chief retired and was replaced by a part-time Fire Director for $40,000 annually. This saves the Town approximately $130,000 between salary and benefits for 2012, with a prorated share for 5 months of 2011.

- DLGS staff worked with Harrison to create a RFP for Emergency Medical Services, which became necessary after the downsizing of the Harrison Fire Department that handled First Responder activities.

- Discovered that the Town Health Officer was retiring. DLGS staff encouraged the Town to enter into a contractual agreement with a nearby Health Officer or County-wide service group. This outsourced service will save tax payers approximately $100,000 annually.

- DLGS staff is working with Harrison and Kearney to pursue a shared service agreement for Fire Protection Services. Proposals are currently being shared by the two municipalities.

- DLGS is working with Harrison to restructure a municipally run senior services program through an alternate agency that can receive the benefit of Medicaid or Medicare assistance.

- Reviewed 4 requests to hire personnel and refused to allow the City to hire 1, which was deemed unnecessary.

- Reviewed 2 professional service proposals and refused to allow the City to retain 1 professional deemed unnecessary.

- Directed the City to restructure its debt from an unsustainable and unreasonable 10 year maturity to a more sustainable and reasonable 20 year maturity.

- Forced the City to adopt a budget in a timely manner, thereby allowing for an accelerated tax sale that could otherwise not have taken place.

- Facilitated a three-week bridge loan at no interest to the City to cover cash flow pending the refinancing of a bond anticipation note. The loan saved taxpayers from otherwise paying an effective 10% interest rate on a private sector loan.

Application can be viewed at:

http://www.state.nj.us/dca/lgs/muniaid/11_aid/11tran_aid/2011ta_application-harrison.pdf