



NEW JERSEY TRANSIT CORPORATION

Proposal to Provide Superstorm Sandy Recovery and Resiliency
Oversight Monitoring Services

Response to RFP Number: 14-033

April 3, 2014





Section 1, Cover Letter

April 3, 2014

New Jersey Transit Corporation
One Penn Plaza
Newark, NJ 07105-2246

Dear Selection Committee Members:

McGladrey LLP (McGladrey) is pleased to submit our proposal to assist the New Jersey Transit Corporation (the NJ Transit) with Superstorm Sandy Recovery and Resiliency Integrity Oversight Monitoring Services (Monitoring Services), as requested by your RFP number 14-033.

It is essential for the NJ Transit to manage the recovery from damages to the NJ Transit System for the repair and replacement of equipment, right-of-way and infrastructure caused by Superstorm Sandy in October 2012. With Federal funding estimated at close to \$500 million over the next three years, NJ Transit needs resources to monitor the process of the use of these monies.

Our experience with other major monitoring efforts has shown that strong oversight and methods must be established to manage the risks of unallowable costs, fraud and adverse publicity. The magnitude of this effort requires the experience and skills from a nationally recognized firm which possesses all the requisite capabilities requested in your RFP.

We offer the following unique combination of skills to NJ Transit:

Fraud Risk Assessment Experience

McGladrey has an experienced team of professionals that dedicate 100% of their time providing risk based fraud and forensic consulting and enterprise risk management services. The key objectives to keep in view in fraud awareness consist of better detection, deterrence and fraud prevention; evaluation of fraud risk factors; identification of possible fraud schemes/scenarios; prioritizing identified fraud risks; evaluating whether mitigating controls exist and assessing whether mitigating controls are effective. McGladrey's team has numerous certifications to assist NJ Transit in meeting these objectives. These include Certified Fraud Examiners (CFEs), Certified Public Accountants (CPAs), Certified Internal Auditors (CIAs) and Certified Information Systems Auditors (CISAs).

Government Industry Focus

Government is a priority industry for McGladrey. We serve more than 2,800 public sector entities on a yearly basis. Our team works with multiple transit agencies and understand their business operations. We also serve numerous state agencies, including Departments of Transportation, cities, counties and other forms of government agencies. We are familiar with a myriad of federal grant and state regulatory requirements. This knowledge of federal programs and agency processing will be invaluable to supporting a fast project ramp-up.



Federal Disaster Assistance Program Experience

McGladrey has experience with disaster programs and grants processing. We have supported major recovery efforts that were funded by various federal programs, including the Deepwater Horizon oil spill, Hurricanes Katrina, Ike and Rita, and the Iowa floods of 2005 and 2008. We are familiar with the application process, allowable costs and compliance requirements. We have identified experienced resources in project management, fraud prevention and internal controls. Our industry specialists and our subject matter specialists will provide the highest degree of quality service to NJ Transit on this very significant project.

National Strength and Capacity to Serve NJ Transit

McGladrey was founded in 1926 and is the fifth largest accounting and consulting firm in the U.S. (Accounting Today's 2013 Report). We are also the fifth largest firm in the New Jersey and New York area. We have over 6,500 professionals in 75 offices across the U.S. and 1,050 professional staff and partners in our northeast region offices. While we are a national firm, McGladrey remains committed to personal and timely service. NJ Transit management will see our Partners and Supervisors frequently. We will create a Program Management Office (PMO), comprised of our project manager, management team and subject matter experts. We will be on-site to proactively manage the monitoring services and actively lead regular status meetings. We have the capacity to provide 6,000 to 30,000 hours annually.

Support of Small Business and Subcontracting Goals

McGladrey fully supports small business and diversity goals. We have an established program that has worked successfully with hundreds of S/M/WBE firms. McGladrey proposes to work with the following highly qualified firm to meet or exceed NJ Transit's 10% participation goal. These firms are the Meridian Group and HGM Management and Technologies, Inc.

Understanding of New Jersey Transit Corporation

We are familiar with NJ Transit's operations and key role in the region. NJ Transit provides bus, rail and light rail services to over 250 million passenger trips annually. It is the nation's third largest provider, covering over 5,600 directional route miles and connecting points in New Jersey, New York and Philadelphia. NJ Transit owns and operates over 2,100 buses and 1,100 railroad cars. The agency's fiscal year 2013 Capital Program totals \$1.2 billion and the operating budget totals \$1.9 billion. NJ Transit has a farebox recovery ratio of 47%.

McGladrey's Commitment to NJ Transit's Recovery Effort

As New Jersey and New York citizens, we are enthusiastic about the prospect of supporting NJ Transit's integrity monitoring needs. We look forward to meeting with you. We acknowledge the receipt of Addenda numbers 1 and 2. Our proposal is a firm offer for 120 days. Our acceptance of this engagement is subject to our normal client acceptance procedures. Please contact Pat at or Bob at the addresses below.

Sincerely,

McGladrey LLP

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Section 2, McGladrey and Project Organization Chart

About McGladrey

McGladrey is the fifth largest provider of assurance, tax and consulting services in the United States, with over 6,500 professionals and associates in approximately 75 offices nationwide. Over the past 85 years, McGladrey has earned nationwide recognition as an expert service provider with the skill sets that are critical for this engagement.

McGladrey was founded in 1926 and has a distinguished history of growth, client-centered expansion and leadership within complex industries relevant to this engagement. Our growth has been the result of our ability to provide our clients with combined expertise, personal attention and quality services.

We bring to NJ Transit the combined resources of a large, world-class firm with the personal service and attention to detail of a local firm. We have the ability to provide NJ Transit with a full suite of services, taking into consideration forensic accounting, consulting and business implications.

While we are a national firm, McGladrey remains committed to personal and timely service. NJ Transit management will see our Partners and Supervisors frequently. We will create a Program Management Office (PMO), comprised of our project manager, management team and subject matter experts. We will be on-site to proactively manage the field operations and application intake, performance metrics, and issue resolution. We will actively lead regular status meetings with representatives of NJ Transit Internal Audit Department (NJIAD), NJ Department of the Treasury and other members of management and/or representatives of the FTA, as required.

Services Summary

The table below provides a summary of our consulting services. We will draw resources from our Financial Advisory Services and other groups.

Consulting		
Financial Advisory Services	Risk Advisory Services	Technology Services
<ul style="list-style-type: none"> • Anti-Fraud Consulting • Project Management • Litigation and Dispute • Performance Improvement • Finance Operations & Controls • Budgeting & Modeling 	<ul style="list-style-type: none"> • Enterprise Risk Management • Internal Audit and Monitoring • Contract Compliance and Cost Recovery • Security & Privacy Services • Construction Oversight 	<ul style="list-style-type: none"> • IT Strategy • Network • Infrastructure • Security Architecture • Business Continuity Plans • Program Mgmt Office • ERP Selection

Fraud Risk Assessments and Forensic Investigative Services

Our Financial Advisory Services Group has extensive experience providing forensic accounting, financial investigations, fraud detection and analysis and dispute resolution services to lenders and debtors. This experience includes performing fraud and forensic accounting investigations, as well as serving as an expert witness. Our experience ranges from forensic accounting to fraud detection to discovery and document management. Our professionals hold a variety of professional designations, including Certified Fraud Examiner (CFE) and Certified Internal Auditor (CIA).

McGladrey's approach to fraud risk assessment is based upon the Committee of Sponsoring Organization's (COSO) industry-leading framework for evaluating the effectiveness of internal controls. We will use a comprehensive and continuous Risk Assessment process that will help mitigate fraud, waste, and abuse risks. We will act proactively to mitigate potential risks, and react with informing analysis and controls to prevent future occurrences when negative events do occur. Whereas traditional program monitoring stresses after-the-fact audits, NJ Transit will benefit from the preventive emphasis in our project risk methodologies.

McGladrey's Recovery Assistance Experience

McGladrey is/has providing claims monitoring and integrity oversight services for:

- Deepwater Horizon Claims – McGladrey is currently engaged by a Court-Appointed Claims Administrator to support the accurate and timely disbursement of funds related to the 2010 Deepwater Horizon oil spill. We are providing quality assurance and monitoring for various economic and property damage claims, individual economic losses, coastal real property damage and other claims. We developed internal control assessments and escalation procedure should fraud or anomalies be detected.
- Iowa Economic Development Authority (IEDA, formerly Iowa Department of Economic Development) – support the administration and distribution of \$85 million in funding provided by the US Department of Housing and Urban Development (HUD) in response to catastrophic flooding that occurred in June of 2008.
- City of Cedar Rapids – developed control procedures for the distribution of over \$7 million in funds, and process improvement in relation to the applicant file review process. Funds began to be distributed to businesses in need within two weeks of McGladrey's involvement.

Our Transit and Transportation Experience

We have been serving governmental entities since our inception over 86 years ago. We have a comprehensive knowledge of financial, compliance and monitoring procedures. Some of our larger transit and transportation clients include:

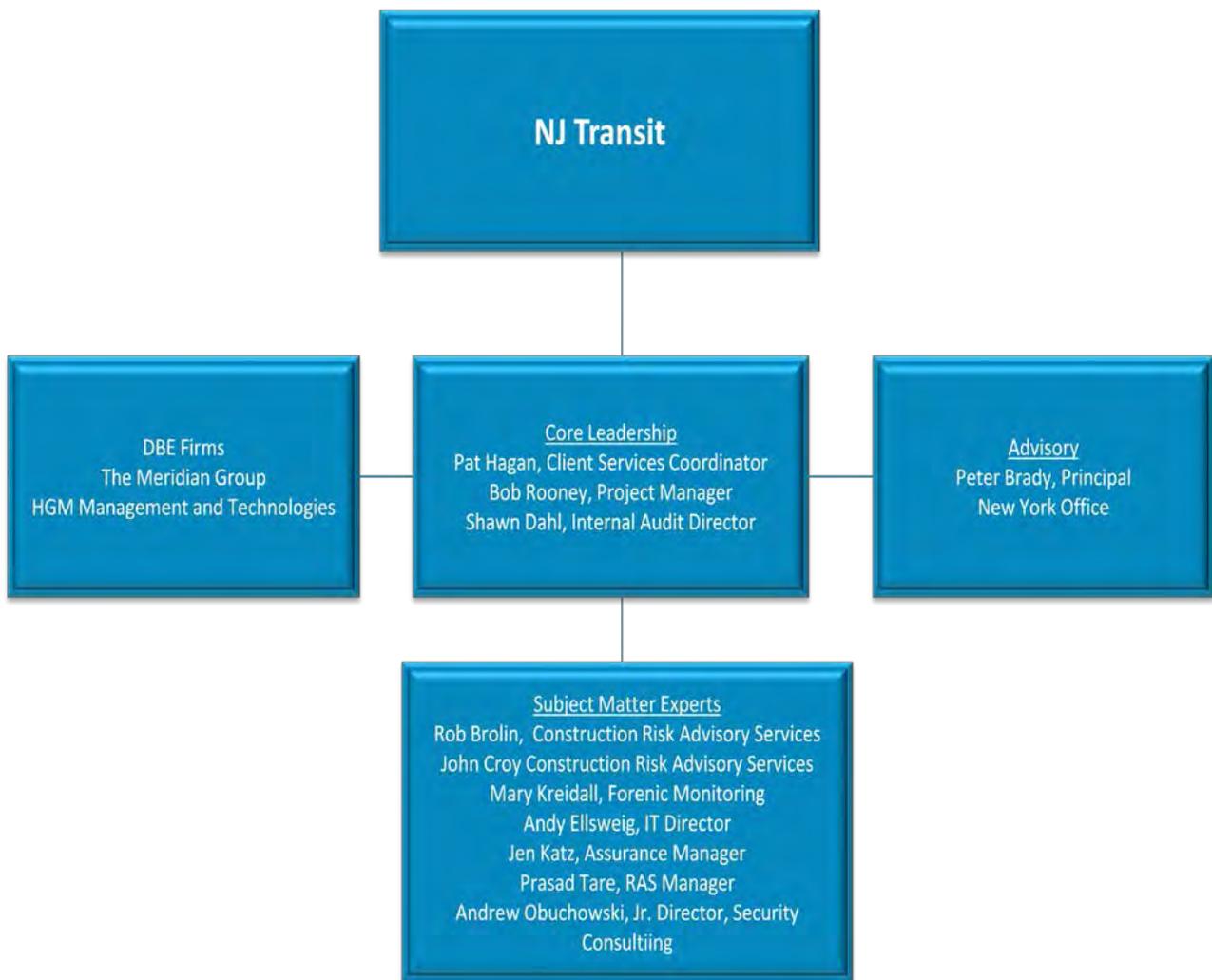
- Washington Area Metropolitan Transportation Authority (WMATA)
- Santa Clara Valley Transportation Authority (VTA)
- Florida Turnpike System
- Illinois Department of Transportation (IDOT)
- Chicago Department of Transportation (CDOT)
- Illinois State Toll Highway Authority
- Miami-Dade County Transit
- Broward County Transit
- Miami-Dade Expressway Authority
- Jacksonville Transportation Authority
- Regional Transportation Authority (RTA) Chicago
- Riverside County Transportation Commission

Project Organizational Chart

McGladrey will provide seasoned professionals for the oversight monitoring services required. Our proposed engagement team is outlined in the organizational chart below.

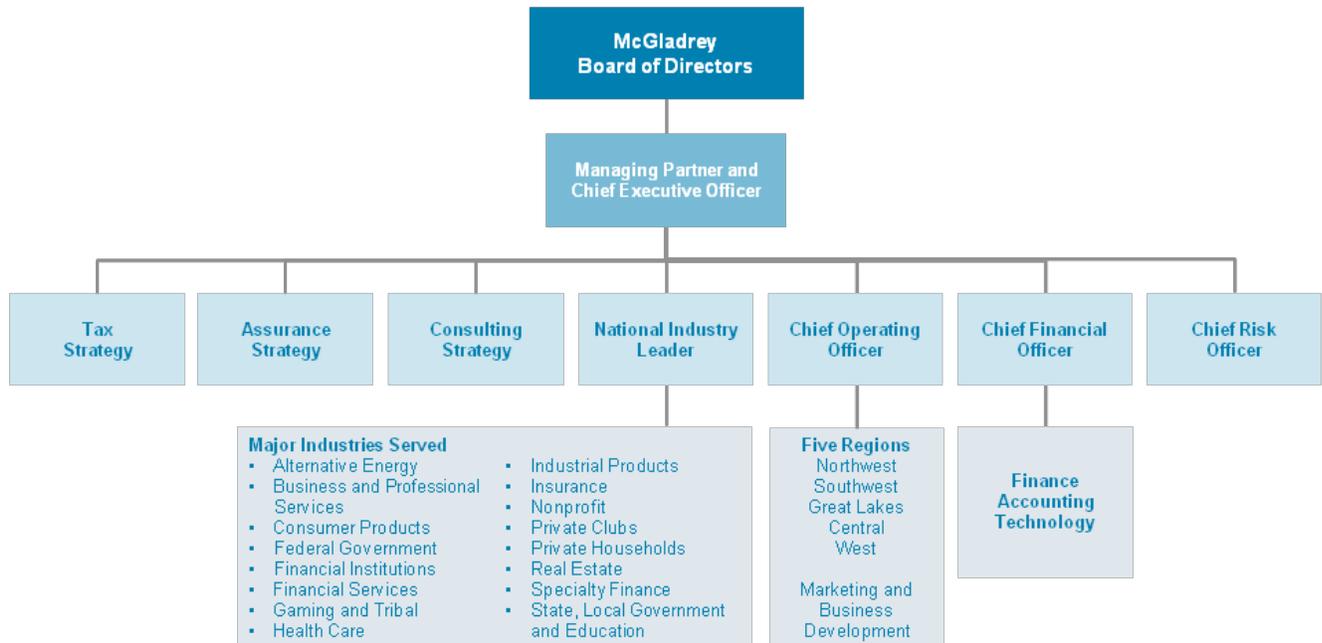
Our team consists of:

- **Key Personnel** - the Leadership Team members depicted below. Will be responsible for overall Project Management, on-site supervision, and client satisfaction.
- **Subject Matter Specialists** - will be involved, depending on the scope of a particular Work Authorization (WA). Please see the biography summaries in Section 7, Qualifications of Consultants.
- **Quality Assurance Partner** - to review deliverables.
- **Minority Owned Business (MBE) Partners** – Our MBE firms are identified. We will execute subcontractor agreements with them.



Firm Organization Chart

McGladrey is a CPA-owned limited liability partnership firm. The McGladrey partnership is governed by a board of directors, which is composed of partners and principals who have been elected by written ballot. McGladrey is led by a Managing Partner and Chief Executive, who reports to the board of directors.



McGladrey Benefits

By selecting McGladrey, NJ Transit receives:



Section 3, Management Approach

Statement of Need

Superstorm Sandy hit New Jersey on October 29, 2012, resulting in significant property and economic damage. The State and its affiliated agencies have been leading the recovery effort by supporting families and communities impacted by the storm, as they rebuild their lives, properties, and neighborhoods. New Jersey businesses also faced major challenges to return to full operations and employment.

The Superstorm Sandy Recovery and Resiliency Program (Program), currently being funded in part by the Federal Transit Administration (FTA), has been established in order to recover from damages to the NJ Transit System. Funding may be available for equipment, Right-of-Way and infrastructure repairs, and to reconstruct the damaged elements in a more resilient manner. Also, the Program is designed to allow the NJ Transit System to be better able to withstand future weather events and to reduce the risk of damage to public transportation assets by reason of natural disasters. The projects to be constructed vary in type, scope and location, but are principally in or are to be in northern and central New Jersey.

Services to be Provided

We understand NJ Transit is seeking integrity monitoring and Internal, IT and construction Auditing services in connection with the Program. Areas of review may include construction and repair contracts, as well as resiliency contracts funded by the FTA or other federal agencies. The scopes of work may be prescribed by New Jersey Transit Internal Audit Department (NJTIAD) in consultation with the NJ Transit Accountability Officer under Executive Order 125 and the New Jersey Department of the Treasury.

The anticipated contract values subject to integrity monitoring services will be approximately \$100 million in year one, \$140 million in year two and \$200 million in year three. The actual contract values and projects subject to integrity monitoring services in each year may change depending on availability of funds and the number of contracts awarded. We have reviewed the potential list of projects subject to integrity monitoring services, which were included in Attachment G to the RFP.

Fraud Risk Assessments and Forensic Investigative Services

Our Financial Advisory Services Group has extensive experience providing forensic accounting, financial investigations, fraud detection and analysis and dispute resolution services to lenders and debtors. This experience includes performing fraud and forensic accounting investigations, as well as serving as an expert witness. Our experience ranges from forensic accounting to fraud detection to discovery and document management. Our professionals hold a variety of professional designations, including Certified Fraud Examiner (CFE) and Certified Internal Auditor (CIA).

McGladrey's approach to fraud risk assessment is based upon the Committee of Sponsoring Organization's (COSO) industry-leading framework for evaluating the effectiveness of internal controls. We will use a comprehensive and continuous Risk Assessment process that will help mitigate fraud, waste, and abuse risks. We will act proactively to mitigate potential risks, and react with informing analysis and controls to prevent future occurrences when negative events do occur. Whereas traditional program monitoring stresses after-the-fact audits, NJ Transit will benefit from the preventive emphasis in our project risk methodologies.

Our Fraud Risk Assessment process provides:

- An assessment of your inherent risks at the financial record and account balance levels
- An evaluation of your internal control and the subsequent assessment of your control risk
- An assessment of the effectiveness of your analytical procedures in controlling and detecting risk

Our fraud detection and analysis services are applied various acts of fraud and concealment applicable to:

- Diversion and misappropriation of assets
- Billing and reimbursement fraud schemes
- Embezzlement
- Bribery and collusion
- Procurement fraud and bid rigging
- Fictitious vendors, employees and payroll schemes
- Expense fraud
- Materials Theft
- Inventory theft
- Larceny
- Forgery
- Bank fraud

Fraud Risk Assessment Approach

The risk assessment process will produce a "Heat Map" of your organization analyzed by seven specific COSO business risk categories, which are referenced to the risk factors. The results of this risk assessment are then used as the foundation for building a risk-based audit plan. The risk assessment is then reviewed with you to ensure that there is a clear understanding of the individual processes, the associated risks, and the respective internal audit coverage. The final risk assessment and audit plan will then be presented to senior management for their review and approval.

McGladrey's Fraud Risk Assessment uses the COSO guidelines to evaluate and define risk and expands beyond just policies and procedures:

Monitoring

- Supervisory and managerial reviews
- Internal and external audit
- Management and Board oversight
- Independent evaluation

Information and Communication

- Internal management reports
- Business decision-making
- External information analyzed
- Organization communication programs

Control Activities

- Approvals and authorizations
- Policies and procedures
- Verification and reconciliation
- Segregation of duties

Risk Assessment

- Management's objectives
- Identification of risk
- Analysis of risk
- Management of risk
- Management of change

Control Environment

- Control is everyone's job
- Integrity and ethical values
- Management philosophy
- Authority and responsibility
- Human resources policies

Forensic Services

Our Financial Advisory Services Group has extensive experience providing forensic accounting, financial investigations, fraud detection and analysis, dispute resolution services to lenders, creditors' committees, debtors, equity holders and trustees. This experience includes both, performing fraud and forensic accounting investigations, as well as, serving as an expert witness in complex litigation matters involving fraud and other types of white collar crime.

Our experience includes the following service areas:

- Forensic accounting
- Reconstruction of books and records
- Fraud detection, analysis and documentation
- Documentation in proof of concealment
- Determination of financial and economic damages
- Discovery and document management
- Deposition preparation, participation, and analysis
- Expert testimony supporting all analyses and conclusions

The Forensic Accounting and Investigative Consulting Services group provides analytical and investigative services to companies involved in complex financial issues. The team's professionals are skilled in performing intricate investigations and providing in-depth analysis of financial transactions and economic impact of high-stakes issues ranging from internal matters to litigation. In addition, they can provide comprehensive reports and recommendations for improvements and support legal proceedings with expert testimony if needed.

Our forensic accounting and investigative consulting professionals hold a variety of professional designations, including Certified Fraud Examiner (CFE) and Certified Internal Auditor (CIA), and bring exceptional skill and experience to your specific circumstances.

Forensic Accounting and Investigative Services

We can assist NJ Transit with identifying, assessing, measuring, mitigating and reporting risks, on a proactive basis.

- Fraud response planning
- Fraud risk assessments
- Due diligence
- Corporate governance assessments
- Internal control review and assessment
- Identification and measurement of fraud risks
- Mitigation of fraud risks
- Implementation of preventive, deterrent and detective measures
- Enterprise risk assessments
- Fraud prevention and ethics training
- Oversight and compliance process development

We also have significant experience supporting entities after fraud has been identified (reactive services).

McGladrey's forensics accounting and investigative consulting professionals are specialists in the investigation and analysis of complex issues. We have experience with:

- Financial fraud investigations
- Quantification of fraud damages
- Reconstruction or restatement of financial records
- Asset misappropriation and employee embezzlement
- Policy non-compliance issues
- Conflict of interest cases
- Investigatory data analysis and extraction
- Regulatory non-compliance issues

Methodology and Approach

Although each forensic assignment is unique, we apply the following approach to all our forensic accounting and fraud analysis assignments.

- Identification of underlying problem or issue
- Determination of relevant documents and records
- Detailed review and analysis of relevant documents and records
- Development of project plan and underlying processes
- Presentation, discussion and approval of preliminary project plan and processes (if practical)
- Testing of project plan and analysis processes
- Presentation and discussion of sample analysis results (with client if practical)
- Adjustment or modification to project plan and analysis processes if appropriate based upon test results)
- Execution of project plan and analysis processes
- Presentation and discussion of results of analysis
- Completion of report
- Presentation of results and support documentation
- Assistance and Support with civil or criminal efforts

Detailed Scope of Work

We have considered the individual Tasks identified in the RFP. Below we provide an outline of our approach to each of the following Tasks:

- Task A – Monitoring Contractor/Vendor Compliance with Applicable Laws and Contract Requirements
- Task B – Developing and Implementing Integrity Programs
- Task C – Conducting Background Checks, Reviews of Documents and Investigations
- Task D – Reporting
- Task E – Preparing and Maintaining a Fraud Risk Assessment
- Task F – Internal, IT and Construction Auditing

Task A – Monitoring Contractor/Vendor Compliance with Applicable Laws and Contract Requirements

Integrity Oversight Monitoring Compliance Requirements

1. Monitoring the compliance of contractors, vendors, and consultants to ensure their compliance with applicable laws, regulations, codes, programs and contractual requirements
2. Satisfying applicable FTA Federal Procurement Requirements and FTA Federal Register Notice Requirements for Oversight Monitoring (Federal Register May 29, 2013 pages 32301- 32302), and State of New Jersey Department of the Treasury Requirements under N.J.S.A. 52: 15D-2

Our Understanding of the Public Transportation Emergency Relief Program

Public Transportation Emergency Relief Program (Transit Emergency Relief Program, Catalogue of Federal Domestic Assistance #20.527) provides relief funding to the four FTA recipients most severely affected by Hurricane Sandy: the Metropolitan Transportation Authority, New Jersey Transit Corporation, the Port Authority of New York and New Jersey, and the New York City Department of Transportation.

Note: Prior to submitting grant applications to FTA for the funds allocated in this notice, recipients should develop a list of potentially eligible projects, consistent with the Emergency Relief Program rule, at 49 CFR 602.17, and submit and review the list of projects with the applicable FTA Regional Office.

All funds allocated in this notice must comply with FTA and other Federal requirements as described in the Interim Final Rule.

McGladrey will incorporate testing of appropriate compliance regulations by project, as follows:

Applicant Eligibility

An entity that operates public transportation service in an area impacted by an emergency or major disaster, as defined by a gubernatorial or presidential declaration of such an emergency or disaster, and that receives federal transit funds directly from FTA.

Relief (Resiliency) Program Compliance Requirements:

- Funds allocated for recovery and rebuilding projects must be used by affected agencies for the cost of emergency operations, emergency protective measures, and emergency and permanent repairs to (or the replacement of) assets that suffered serious damage as a result of the storm. Eligible projects include the repair or replacement of public transportation vehicles, infrastructure and other assets that were seriously damaged by Hurricane Sandy.
- FTA will fund recovery and rebuilding projects that bring transit assets up to a "state of good repair" (installation of comparable equipment that meets the basic function, class, or capacity of the equipment replaced and meets current technological or design standards, or a like-new condition).
- Projects that significantly alter the function or capacity of the underlying transit asset or infrastructure are not eligible recovery and rebuilding projects.

Eligible activities:

- (1) Replacement of older features with new ones;
- (2) incorporation of current design standards, including those that decrease an asset's vulnerability to future disasters or that increase access to persons with disabilities
- (3) replacement of a destroyed facility to a different location (from its existing location) when driven by resiliency decision-making or when replacing it at the existing location is not practical or feasible; and
- (4) additional required features resulting from the National Environmental Policy Act (NEPA) process.

Use of Insurance Proceeds

FTA will monitor the use of insurance proceeds to ensure they meet program requirements.

- Recipients that have received insurance payments for damaged equipment and facilities prior to the receipt of FTA Emergency Relief funding must reduce their reimbursement request by the amount of insurance proceeds allocated for the repair or replacement of a given asset.
- FTA will participate at a 90 percent Federal share of the net project cost after application of insurance proceeds.

Resiliency Projects:

- Resiliency is defined as "a capability to anticipate, prepare for, respond to, and recover from significant multi-hazard threats with minimum damage to social well-being, the economy, and the environment."

24 Month Expenditure Requirement

- Projects funded through the Disaster Relief Appropriations Act of 2013 are subject to section 904(c) of that Act, which requires expenditure of funds within 24 months of grant obligation, unless this requirement is subsequently waived for this program

Eligible Sources of Local Match

- The non-Federal share of Emergency Relief grants may be provided from an undistributed cash surplus, a replacement or depreciation cash fund or reserve, or new capital
- If the activity is eligible under the Community Development Block Grant (CDBG) program, FTA will accept CDBG funds as local match.

Reporting Requirements

- Post-award reporting requirements include a monthly submission of the Federal Financial Report and Milestone reports in TEAM consistent with FTA's grants management Circular 5010.1D, as well as any other reporting requirements FT A determines are necessary.

Task B – Developing and Implementing Integrity Programs

RFP Requirements:

1. Programs and procedures to prevent and deter fraud, corruption, conflicts of interest and illegal activity by entities doing, or seeking to do, business with NJ TRANSIT; Procedures should include methods to remediate or mitigate fraud, waste, corruption and abuse.
2. Assisting with a program for facilitating the reporting of illegal and improper conduct, through measures such as education and awareness, posters, leaflets, hotlines, etc.

McGladrey's Response and Approach:

McGladrey's Forensic Accounting and Fraud Investigations practice provides analytical and investigative services delivered by a dedicated staff of professionals trained in the detection of fraud. Many of our professionals are Certified Fraud Examiners. Our professionals bring together deep experience in forensic accounting and investigations, as well as fraud prevention and compliance assessments. We help companies detect, investigate and prevent bribery and corruption.

We believe that the risk of fraud can be reduced through a combination of preventative and detection measures. Because fraud can be difficult to detect because it often involves falsification of documents or collusion among two or more parties, it is important to place a strong focus on fraud prevention.

We are experienced in developing programs and procedures to prevent fraud. Our approach on this engagement would be to develop a fraud risk profile on each service provider to NJ Transit. We believe this tailored approach will be an effective method of assessing the fraud risks of each provider and will allow us to build programs and develop procedures specific to risks inherent to the service provider.

This approach will also allow us to direct resources efficiently to where attention is need and to develop procedures that specifically address these areas. We will process reengineer each significant fraud risk or susceptible area identified, when necessary. It is our opinion "a one size fits all" program for all service providers is not an effective fraud prevention solution.

Using the list of projected projects identified in "Attachment G" of the RFP, we would identify key risk factors around fraud, waste, corruption and abuse for each type of project / scope. We would start with our inventory of known losses / key risks based on industry ethical practices, and work with key individuals within NJ Transit to complete this list. Based on each of these risks identified, we would prepare both a preventative strategy (Task B), as well as a detective strategy (Task E).

Preventative Control Approach

For each risk that could be controlled through a preventative strategy, we will determine controls that would be designed to mitigate these risks around a series of preventative categories, including:

Area	Description	Internal / External Focus
Policy	Enhancements to existing policies or recommendations for additional policies	Internal
Process	Review existing processes and related internal controls, especially related to the procurement and accounts payable processes for enhancements to prevent and detect fraud (e.g. appropriate segregation of duties, signing authority levels, reconciliations, review of duplicate entries, vendor maintenance, etc.)	Internal
Training	Develop targeted training and education strategies to minimize fraud (see section 2 below)	Both
Tone at the Top	Additional points to add to both the messaging and the delivery of the existing tone at the top, focusing on key areas such as how key management communicate and demonstrate ethical behavior, including the existence and rollout of a code of ethics and appropriate performance targets for staff, and providing an environment that doesn't punish whistle blowing	Internal
Procurement Process	Review existing RFP process and contracts to identify enhancements used to better qualify contractors, and to ensure adherence to key deliverables. These include enhancements to sections such as terms and conditions and methods of operations.	Both
Continuous Monitoring	Identification of key processes that can be included to design a series of key risk indicators that can be continuously monitored through the use of computer assisted audit technique (e.g. ACL or IDEA)	Internal

We would also review additional areas which support a strong ethical culture and mitigate the potential for fraud:

- Ensuring an independent Whistleblower and / or Fraud Hotline is in place and operating effectively, and is communicated both internally and externally to NJ Transit.
- Existence of an appropriate oversight process. These functions, which include management, boards, and internal audit, will evaluate management's identification and resolution of fraud, tone at the top and other measures designed to manage fraud risk and to ensure the appropriate infrastructure is in place and operating effectively.
- Develop and communicate a strategy that outlines the organization's approach when a fraud event is detected, including protocols for investigation, prosecution and the public release of information relating to any convictions.

Training Classes

Preventative measures are the first line of defense in minimizing fraud risk. Preventing frauds requires a strong emphasis on creating a workplace environment that promotes ethical behavior, deters wrongdoing and encourages all employees to communicate any known or suspected wrongdoing to the appropriate person.

McGladrey could assist NJ Transit with developing an education and awareness program regarding fraud prevention. The training could be targeted for all employees, with certain elements scheduled on a recurring basis (e.g. code of conduct). This training will incorporate key risk areas identified above, and include elements that are outlined in key policy, procedure and tone at the top documents, such as:

- Organizational code of conduct (and confirmation)
- General employee conduct
- Conflicts of interest, including relationships with and gifts from suppliers
- Fraud warning flags
- proper tone at the top
- zero tolerance policy for illegal or unethical behavior
- education on fraud prevention policies
- education on identifying red flags or warning signs
- education on common fraud schemes used in construction industry
- encourage employees to seek advice if something appears irregular
- communication of potential wrongdoings, including whistleblower and fraud hotline
- consequences of non compliance



Task C – Conducting Background Checks, Reviews of Documents and Investigations

McGladrey proposes to perform back ground check and public record searches on stakeholders of the NJ Transit service providers and additional individuals that may be identified through our investigative process. Such searches would be used to detect if the individual or entity had any judgments, tax liens, bankruptcies, concealed weapons license, criminal records, property owned, value of real estate owned, potential relatives, potential associates and other non disclosed business affiliations.

McGladrey could conduct a forensic review of documents submitted to NJ Transit by their service providers. Our review will be designed to go beyond testing for accuracy; we will examine documents that appear irregular or altered, dates that seem inconsistent with the work performed, information inconsistent with public records searches and information inconsistent with industry standards. Our review would be ongoing and designed to detect any unusual patterns displayed in the documentation, as well as identifying noncompliant or incomplete submissions by the service provider.

McGladrey would develop a system of timely, effective and efficient review, investigation and resolution of allegations involving potential fraud. Our forensic investigator will evaluate the allegation and apply investigative protocols. Such protocols will include the interviews, analysis, collection and securing of evidence for use in potential legal proceedings, site visits and surveillance. McGladrey’s investigative team will promptly provide NJ Transit with their findings of their investigations, as prescribed in the RFP and make recommendation to mitigate losses.

Background Check Process

McGladrey utilizes secure services provided by Lexus/Nexus. The “SmartLinx” service will provide the data needed for investigatory purposes.

An example of such report follows:

SmartLinx® Person Report (Example, Redacted)

Report Created

04-01-2014 | FOR INFORMATIONAL PURPOSES ONLY | Copyright © 2014 LexisNexis | All rights reserved.

Search Terms - First Name: [REDACTED]; Last Name: [REDACTED]; Middle Name: [REDACTED]

Report created for: McGLADREY LLP

Search Attributes

SSN Summary (1)	Address Summary (16)	Driver Licenses (1)	Voter Registrations (2)
Professional Licenses (0)	Other Licenses (1)	Real Property - Current (1)	Real Property - Prior (3)
MVRs - Current (6)	MVRs - Prior (9)	Watercraft - Current (0)	Watercraft - Prior (0)
Aircraft - Current (0)	Aircraft - Prior (0)	Criminal Filings (1)	Bankruptcy Filings (0)
Judgment & Lien Filings (0)	UCC Filings (1)	Possible Relatives (62)	Person Associates (6)
Neighbors (1)	Business Connections (0)	Possible Employers (1)	Business Associates (11)
Possible Education (0)	View All Sources (203)		

SmartLinx® Report Summary (Example, Redacted)

Name	Address	County	Phone
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
LexID	SSN	DOB	Email
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

At a Glance

Real Property	1	Criminal/Arrest	1
Personal Property	3	Bankruptcy	0
Professional Licenses	0	Judgments/Liens	2
Business Connections	0	Foreclosure/Notice of Default	0

Name Variations, SSN Summary and DOBs

NAME VARIATIONS	SSN SUMMARY	REPORTED DOBS
[REDACTED]	[REDACTED]-XXXX Issued in Florida, 198X	01/19 [REDACTED]

Physical Description

Hair Color	N/A	[REDACTED]
Eye Color	N/A	[REDACTED]
Height	6' 2"	Date last seen: 01/200X
Weight (lb)	N/A	[REDACTED]
Scars/Marks	N/A	[REDACTED]

Address Summary (1 current, 15 prior)

No.	Address	Status	To-From	Phone
1.	1120 [REDACTED] Drive [REDACTED], IL 605XX (Residential)	Current	2010-01/201X (Current Residence)	[REDACTED]
Possible Household Members [REDACTED]				
2.	PO Box [REDACTED] [REDACTED] FL 32260-0948 (Business, PO Box)	Prior	06/2011-09/2013	[REDACTED]

Licenses/Voter Registration (4 licenses)

No.	Type	Status	Issued/Expired	Location
1.	Driver	Active	Issued: 01/13/20XX; Expires: 01/20XX	FL
2.	Voter	Active	Registration: 03/11/19XX	FL



3.	Other – Sports		Licensed: 05/27/20XX	FL
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SmartLinx ® Report Summary (Example, Redacted)

Real Property (1 current, 3 prior)

No.	Address	Status	Purchase Price	Sale Price	State
1.	1120 [REDACTED]	Current			IL
Owner Info [REDACTED]					
Legal Info Parcel Number: [REDACTED] Assessment Year: [REDACTED] Recording Date: [REDACTED] Document Type: Assessor Assessed Value: \$[REDACTED] Type of Address: Single Family Residential					
Mortgage Info 1 Loan Amount: \$[REDACTED] Lender Name: WELLS FARGO BANK NA Loan Type: FHA Recording Date: 09/08/20XX Contract Date: 09/08/20XX					

Personal Property (6 current, 9 prior)

No	Type	Status	Year/Make	Model	VIN	Juris-diction
1.	MVR	Current	2012 Mercedes- Benz	C300, Sedan 4 Door	[REDACTED]	IL
Vehicle Information VIN: [REDACTED] Year: 20XX Make: Mercedes-Benz Model: C300 Class/Type: Passenger Car/Light Truck Base Price: \$88,020.00						
Registrant 1 [REDACTED] Plate Number: [REDACTED] License Plate State: IL Original Registration Date: 03/19/20XX Latest Registration Date: 02/17/20XX Expiration Date: 02/28/20XX						
2.	MVR	Current	2005 Nissan	Altima, Sedan 4 Door	[REDACTED]	FL

**Vehicle Information**

VIN: [REDACTED]
 Year: 2005
 Make: Nissan
 Model: Altima
 Class/Type: Passenger Car/Light Truck
 Base Price: \$9,050.00

Lien Holder 1
HSBC AUTO FINANCE

SmartLinx® Report Summary (Example, Redacted)
**Possible Criminal /
 Arrest (1 filings)**

No.	Name	Type	Offense	Date	State
1.	[REDACTED]	Criminal	[REDACTED]	05/10/20XX	Florida

Details

Data Source: Criminal Court
 Name: [REDACTED]
 Address: [REDACTED]
 Saint Johns, FL.

Offense 1

Offense Date: 05/10/20XX
Court Statute: 3 8 9 .875 2 ZA
County: Paco

Bankruptcy / Judgment / Liens / UCC Filings (1 debtor, 0 creditor)

No.	Role	Status	File Date	File Number	Jurisdiction	File Type
1.	Debtor	Active	11/09/19XX	[REDACTED]	FL	Initial Filing

Debtor 1

[REDACTED]
 Valrico, FL

Secured Party Info 1

Eastern Financial
 [REDACTED]
 Tempe, AZ

Filing 1

Filing Number: [REDACTED]
 Date: 11/09/19XX
 Filing Type: Initial Filing

Filing Office 1

Secretary Of State/UCC Division, State Capitol
 Springfield, IL

Associates / Possible Relatives (All Degrees: 32)



No.	First Degree Relatives	Address	Phone
1.	██████████ (Possible Sister) SSN: xxx-xx-XXXX DOB: 02/19XX (Age: xx)	██████████ Saint Georges, FL	
2.	██████████ (Possible Wife) SSN: xx-xx-XXXX DOB: 01/19XX (Age: XX)	xxxxxxxxxxx Grivce, IL	xxx-xxx-xxxx

SmartLinx® Report Summary (Example, Redacted)

Neighbors (7 records found)

No.	Full Name	Address	Phone
1.	Name: ██████████ SSN: ██████████ DOB: 03/19 ██████████ (Age: ██████)	██████████ Lisle, IL ██████████	
2.	Name: ██████████ SSN: ██████████ DOB: 12/19 ██████████ (Age: ██████)		

Business Connections / Possible Employers (1 records found)

No.	Name	Address	Phone
1.	TREE OF MANN, INC	Plant, NM	

Business Associates (11 records found)

No.	Name	Address	Role
1.	BENEFICIAL NEW MEXICO, INC.	Santa Fe, NM	Personal Property
2.	CAPITAL ONE AUTO FINANCE	Plano, TX	Personal Property
3.	PETERS TRUST	Cockeysville, MD	UCC

Sources

ALL SOURCES	203 SOURCE DOCUMENTS
Criminal	1 Source Documents
Deed Transfers	11 Source Documents
Driver Licenses	5 Source Documents
Email Addresses	3 Source Documents
Historical Person Locator	23 Source Documents
Hunting and Fishing Licenses	2 Source Documents
Motor Vehicle Registrations	76 Source Documents
Person Locator 1	9 Source Documents

Person Locator 2	6 Source Documents
Person Locator 5	33 Source Documents
Phone	6 Source Documents
PhonesPlus Records	6 Source Documents
Tax Assessor Records	13 Source Documents
UCC Lien Filings	1 Source Documents
Utility Locator	5 Source Documents
Voter Registrations	3 Source Documents

SmartLinx ® Report Summary (Example, Redacted)

Key

	High Risk Indicator. These symbols may prompt you to investigate further.
	Moderate Risk Indicator. These symbols may prompt you to investigate further.
	General Information Indicator. Additional information is provided.
	The most recent telephone listing as reported by Electronic Directory Assistance.
	Wireless Phone Indicator. These symbols indicate a cell phone number.
	Residential Phone Indicator.

Important: The Public Records and commercially available data sources used on reports have errors. Data is sometimes entered poorly, processed incorrectly and is generally not free from defect. This system should not be relied upon as definitively accurate. Before relying on any data this system supplies, it should be independently verified. For Secretary of State documents, the following data is for information purposes only and is not an official record. Certified copies may be obtained from that individual state's Department of State.

FCRA:The data provided to you by use of this product may not be used as a factor in establishing a consumer's eligibility for credit, insurance, employment or other purposes identified under the Fair Credit Reporting Act (FCRA).

Your DPPA Permissible Use is: Litigation or Investigation
Your GLBA Permissible Use is: Monitoring and Legal Compliance

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END of Sample Report

Task D – Reporting

Reporting to NJ Transit

We will provide the following deliverables NJ Transit:

- 1) Monthly reports on activities conducted on or for each task to include the type of activity, results, recommendations and analysis;
- 2) Monthly reports on analysis of data as to fraud detection, outlier trends and progress by agencies or contractors to correct anomalies and system processes to provide verification of resolution and prevention of reoccurrence;
- 3) Monthly reports on the resolution and closure of issues identified as result of any audit or monitoring from agencies providing oversight.

A deliverable schedule will be provided as requested for each project.

Contract Management

McGladrey's Program Management Office (PMO) is modeled after our successful performance on our current engagements of similar size and complexity in the public and commercial sectors. Our methodology typically includes: program management between stakeholders, coordination including sharing best practices across task orders, conflict management and legal review, billing/invoicing/contract compliance, cost management and financial reporting, and rapid conflict resolution.

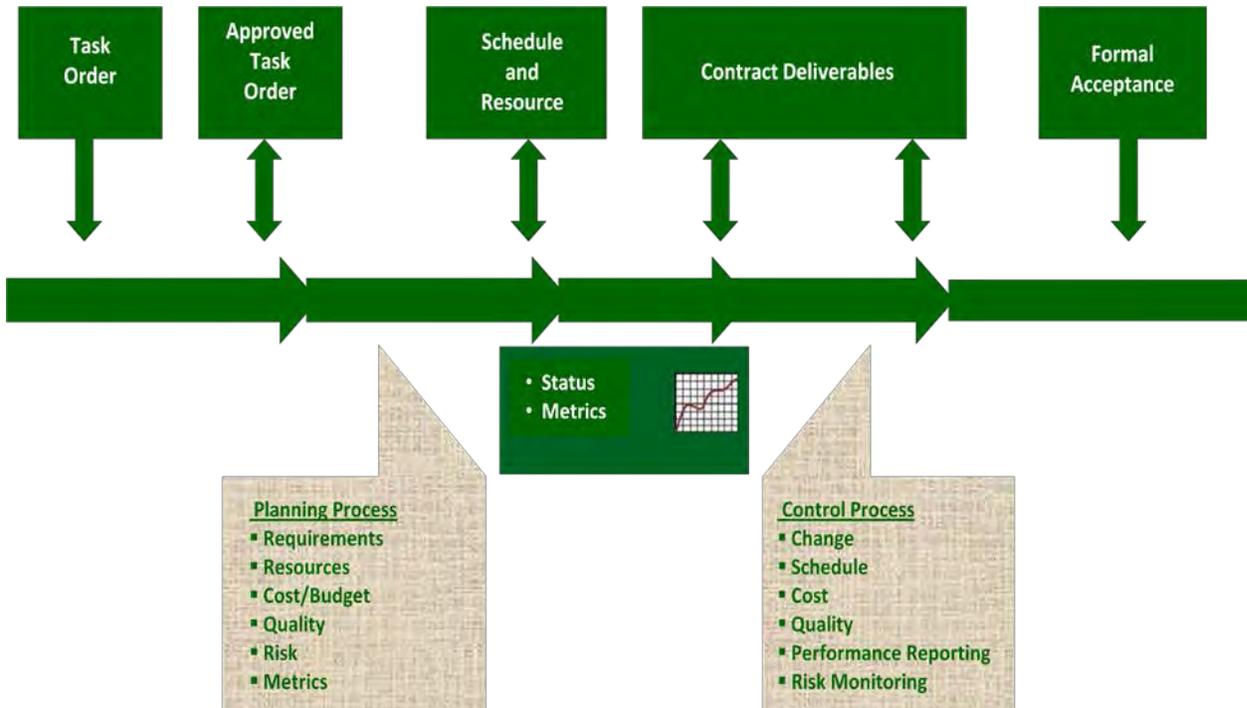
Our PMO provides functional support and is sourced from the existing Team McGladrey's infrastructure, ensuring consistency across the contract as we interface with all stakeholders. We excel at managing contracts and task orders and meeting all contractual requirements including: management of team members, quality assurance, recruitment and retention, and employee training. When executed together, each of these efforts help ensure successful completion of required tasks.



Work Authorization (WA) Management

McGladrey brings the processes, tools and a deep team of experts that provide an efficient response to support new or changing task requirements. As noted below, the McGladrey process is composed of five activities: Initiate, Plan, Execute, Control, and Close.

Our approach is both disciplined and flexible. Each of these phases is inclusive of a set of activities that are performed based on the particular task requirements, schedule considerations, level of priority, and criticality.



The benefits of our contract management process are that they are:

- Inclusive — All team members are notified of every contract requirement and execution in accordance with those requirements is consistently applied
- Repeatable — McGladrey has employed this same process over multiple large and high profile contracts.

Project Risk Management

McGladrey recognizes that technical, schedule, and cost performance risks must be managed throughout the period of performance. Risk is best mitigated through a proactive approach of identification, assessment, response, execution and evaluation. The PMO holds the accountability for risk mitigation.

Once a risk is identified and communicated to all stakeholders, it is assessed based on:

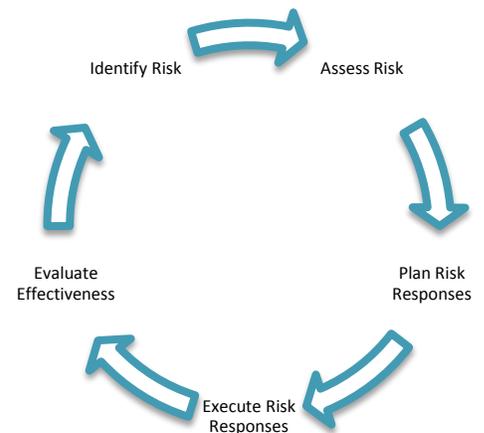
- Impact—the severity if risk should materialize
- Probability—the likelihood of risk occurrence
- Timeframe—when the risk may occur in relationship to the time of risk identification

Activities then focus on what should be done, when it should be accomplished, who is responsible, and associated cost and schedule impacts. Immediately upon receipt of these results, the plan of action to mitigate the risk is shared with our task order client. After mitigation plans are approved for action and implemented, results are tracked and shared with all stakeholders until the risk threat is reduced to an acceptable level or eliminated.

Escalation is part of this process. Issues that cannot be resolved at the lowest applicable level of the organization are escalated quickly until resolution is achieved. The effectiveness of the mitigation activities is evaluated at regularly scheduled review meetings and reflected in weekly PMO meetings. We regularly reassess risk probability, impact, and mitigation actions—adjusting the mitigation plan and documenting any lessons learned.

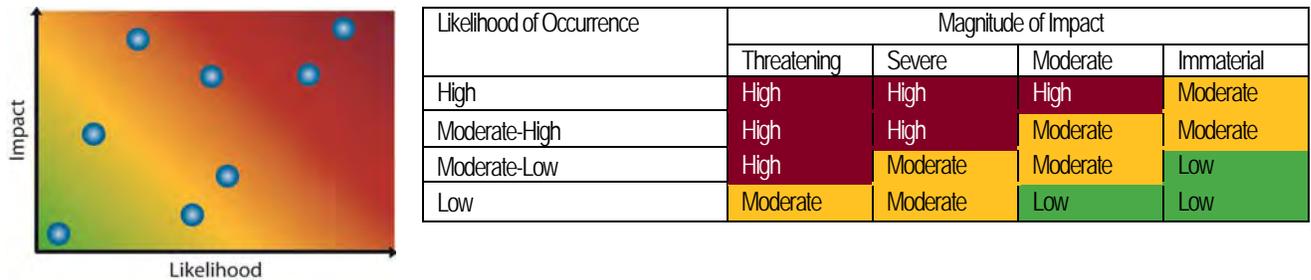
One of the key elements to successfully monitor our projects and manage expectations of our clients is our McGladrey PMO process. Our PMO process is based on the leading practices in the Project Management Institute's (PMI) Project Management Body of Knowledge (PMBOK) that actively address schedule, cost, and quality risks, and optimize the use of resources. McGladrey's PMO process provides summary status for all task orders, teammates and the overall program. McGladrey uses these program management tools across many of our strong relationships, supporting many large complex projects such as our assistance to the FDIC. At the FDIC, McGladrey has maintained three contracts requiring ongoing management and coordination of an average of 250 assigned personnel with surges of up to 330 resources.

Task Order Risk Management



Project Dashboard Reporting

One of McGladrey’s typical dashboard tools is a project scoring tool pictured below as a Heat-map to evaluate key project attributes and an overall project assessment rating. Our Heat-map dashboard allows the task order team to quickly mitigate areas of risk as noted above.



McGladrey uses Microsoft Project for automated tracking of resources, milestones, and progress. During contract start up, the PMO, in conjunction with the government task order personnel, develops a master schedule to document program objectives that includes key program and contractual milestones, associated staffing, critical path items and deliverables. Progress is measured and reported in a Weekly Status Report against this baseline.

Management Plan schedule. If it is deemed necessary to make an adjustment to our plan, revisions are made and the schedule is re-published with a revision indication to ensure the team stays on plan and manages expectations of all stakeholders.

Reporting to the State Treasurer

Report integrity monitoring activities and results periodically to NJ Transit as required:

- Post-award reporting requirements include a monthly submission of the Federal Financial Report and Milestone reports in TEAM consistent with FTA’s grants management Circular 5010.1D, as well as any other reporting requirements FTA determines are necessary.
- On the first business day of each calendar quarter, each integrity oversight monitor shall provide to the State Treasurer for distribution to the Legislature, in accordance with section 2 of [P.L.1991, c. 164 \(C.52:14-19.1\)](#), and the Governor a report detailing the integrity oversight monitor’s provision of services during the three-month period second preceding the due date of the report and any previously unreported provision of services, which shall include, but not be limited to, detailed findings concerning the integrity oversight monitor’s provision of services and recommendations for corrective or remedial action relative to findings of malfeasance and inefficiency. The report shall include a privilege log which shall detail each denial of sensitive information that the integrity oversight monitor exercises in preparing the report for transmission to the Legislature and the Governor pursuant to this subsection. The report shall not include any information which may compromise a potential criminal investigation or prosecution or any proprietary information.
- No report shall become due for an integrity oversight monitor until at least three months after commencing duties as an integrity oversight monitor. The State Treasurer shall provide the integrity oversight monitor reports received pursuant to this subsection to the Legislature and the Governor within ten business days of receipt.
- In compliance with malfeasance and inefficiency reporting protocols developed by the Treasurer.
- Immediately upon making finding of a likely criminal violation or lesser degree of waste, fraud or abuse, to New Jersey Attorney General and Comptroller.

Task E – Preparing and Maintaining a Fraud Risk Assessment

Fraud Risk Assessment Model - for Construction Fraud

While the funds for construction activity and capital projects are down in recent years, fraud has gradually increased in the construction industry. State and local government entities must implement measures to protect projects against fraudulent activity, ensuring they stay on time, on budget and deliver the expected quality. With more bids for fewer projects and large contracts at stake, you must be aware of warning signs to ensure contractors remain in compliance.

Common risk areas

A recent Association of Certified Fraud Examiners (AFCE) report found a median construction fraud loss of \$300,000, the third highest amount of any industry. The most common fraudulent areas were billings (36 percent) and corruption (34 percent). In the case of billings, there is no penalty for overcharging a customer, and often, a contractor is only caught if an audit takes place.

The AFCE also pointed out several behavioral red flags to be cognizant of, including a close association with vendors, a “wheeler-dealer” attitude, excessive pressure and control issues. Each of these characteristics can be associated with construction companies, from both contractor and owner perspectives.

Typical contract structures

State and local government entities typically engage in two types of contracts, lump-sum (fixed-price) or cost-reimbursable projects. Your type of contract may be dictated by state or local regulations, but both carry various levels and areas of risk.

In a lump-sum contract, the project is competitively bid, as multiple offers are collected and the most competitive and responsive bid performs the project. This contract can also be negotiated, but is viewed as high risk for many reasons.

In a federal government environment, the Truth in Negotiation Act dictates that a contractor must provide documentation and information that is current, accurate and complete. Unfortunately, similar regulations do not exist in a state and local government setting. When negotiating, risks arise when the contractor may not provide all of the information and data that they are aware of and does not negotiate in good faith.

The next type of contract is cost-reimbursable, also known as cost-plus. These agreements exist in many different forms, including those paid with a fixed or a percentage fee. In the federal government, it must be a fixed fee, but most state and local entities enter into percentage fee agreements. Other forms of this contract are guaranteed maximum price agreements, as well as time and material contracts.

The type of contract you choose may be predicated on regulations you have to abide by, also by the type of project you require. In other words, if it is a simple design, you may want a lump-sum contract. However, if it is a more complex project, a cost-reimbursable contract may be more beneficial.

Types of Construction Project Risks

A construction project is a balancing act, with three primary areas to focus on: cost, schedule and quality. Each of these areas is interrelated and can directly influence each other; for example, some contracts may include incentives to complete a project early, impacting both schedule and cost. Unfortunately, the connected nature of projects leads to complex agreements, and increases the potential for fraud.

Several unique risks are apparent within lump-sum contracts, such as:

- Procurement – Occasionally the bid process is manipulated, or the lowest bid might not be the best bid.
- Specifications – Contractors may take shortcuts when they do the work.
- Change orders – Contractors make up for low bids by submitting change orders, and many have errors in their estimates or insufficient documentation.
- Front-end or top-loading – A contractor bills your organization in advance of performing the work.
- Allowances – Money is set aside for a specific task, but contractors use those funds for other tasks.
- Prevailing wage rates – In the public sector, contractors must meet wage requirements. However, many contractors do not adhere to guidelines.

Cost-reimbursable contracts also include several distinct risks that you must be aware of and manage, including:

- Labor – Many areas are prone to overbillings and risk, such as fringe benefits and worker's compensation
- Cleanup – Subcontractors are normally responsible for cleanup, but contractors may submit excessive charges for providing services that are the responsibility of subcontractors.
- Negotiations – As mentioned earlier, some contractors fail to negotiate in good faith by not providing accurate and complete information.
- Subcontractor -- Contractors sometimes provide trade work, which is known as self- performed work. In these instances, the contractor manages their own work, potentially resulting in poor craftsmanship or excessive change orders.
- Insurance – Excessive costs and coverage charges are becoming more common due to recent changes in insurance coverage.

The majority of overbillings come from labor (51 percent), followed by insurance (21 percent), billings in excess (17 percent) and miscellaneous charges (10 percent). However, fraudulent charges related to insurance are rising, and will become more prevalent in the coming years.

With tighter budgets and limited flexibility, state and local governments must perform due diligence to avoid overbillings and fraud in construction projects. In many cases, internal controls must be implemented or adjusted to account for evolving risks. However, a construction audit is also a valuable tool to ensure costs are allowable and in accordance with the contract, and to recover any potential overbillings.

McGladrey's Construction Fraud Risk Assessment Tools

McGladrey utilizes a fraud risk assessment tool recognized by the Association of Certified Fraud Examiners.

The Fraud Risk Assessment Tool we have developed for construction includes three general modules and three modules specific to construction. Each module contains a series of questions designed to help focus on areas of risk. We work with the owner to answer the questions for each module. The individuals we work with will have extensive knowledge of the operations.

Upon completion of all of the questions, we review the results of the assessment with the client or employer in order to:

- Identify the potential inherent fraud risks.
- Assess the likelihood and significance of occurrence of the identified fraud risks.
- Evaluate which people and departments are most likely to commit fraud and identify the methods they are likely to use.
- Identify and map existing preventive and detective controls to the relevant fraud risks.
- Evaluate whether the identified controls are operating effectively and efficiently.
- Identify and evaluate residual fraud risks resulting from ineffective or nonexistent controls.
- Respond to residual fraud risks.

The Fraud Risk Assessment Tool may reveal certain residual fraud risks that have not been adequately mitigated due to lack of, or non-compliance with, appropriate preventive and detective controls.

The General Modules we use include the following:

- Employee Assessment
- Key Management Assessment
- Physical Controls

We also use Modules or Schemes most relevant to Construction:

- Corruption: Kickbacks
- Corruption: Conflict of Interest
- Purchasing and Billing Schemes

Construction Fraud Risk Assessment Matrix

We will prepare a Construction Fraud Risk Assessment Matrix which identifies the following:

- **Identified Fraud Risks and Schemes:** This column should include a full list of the potential fraud risks and schemes that may face the organization. This list will be different for different organizations and should be formed by discussions with employees and management and brainstorming sessions.
- **Likelihood of Occurrence:** To design an efficient fraud risk management program, it is important to assess the likelihood of the identified fraud risks so that the organization establishes proper anti-fraud controls for the risks that are deemed most likely. For purposes of the assessment, it should be adequate to evaluate the likelihood of risks as remote, reasonably possible, and probable.
- **Significance to the Organization:** Quantitative and qualitative factors should be considered when assessing the significance of fraud risks to an organization. For example, certain fraud risks may only pose an immaterial direct financial risk to the organization, but could greatly impact its reputation, and therefore, would be deemed to be a more significant risk to the organization. For purposes of the assessment, it should be adequate to evaluate the significance of risks as immaterial, significant, and material.
- **People and/or Department Subject to the Risk:** As fraud risks are identified and assessed, it is important to evaluate which people inside and outside the organization are subject to the risk. This knowledge will assist the organization in tailoring its fraud risk response, including establishing appropriate segregation of duties, proper review and approval chains of authority, and proactive fraud auditing procedures.
- **Existing Anti-fraud Internal Controls:** Map pre-existing controls to the relevant fraud risks identified. Note that this occurs after fraud risks are identified and assessed for likelihood and significance. By progressing in this order, this framework intends for the organization to assess identified fraud risks on an inherent basis, without consideration of internal controls.
- **Assessment of Internal Controls Effectiveness:** The organization should have a process in place to evaluate whether the identified controls are operating effectively and mitigating fraud risks as intended. Organizations should consider and review what monitoring procedures would be appropriate to implement to gain assurance that their internal control structure is operating as intended.
- **Residual Risks:** After consideration of the internal control structure, it may be determined that certain fraud risks may not be mitigated adequately due to several factors, including (a) properly designed controls are not in place to address certain fraud risks or (b) controls identified are not operating effectively. These residual risks should be evaluated by the organization in the development of the fraud risk response.
- **Fraud Risk Response:** Residual risks should be evaluated by the organization and fraud risk responses should address such remaining risk. The fraud risk response could be implementing additional controls and/or design

The assessment will be made based on likelihood and significance. This phase of the assessment will also include discussion with management and their objectives in this area.

Construction Fraud Risk Assessment Program

As we perform our process for each project, we will perform the following:

- Use data analytics to review for related parties (e.g. address)
- Use data analytics to review for procurement that did not go through procurement process eg awards just below dollar threshold for competitive bids.
- Test for negotiating pursuant to Truth in Negotiations Act if applicable
- Examine awards for small and disadvantage business and if sole source
- Excessive increases in contract value eg in excess of 10 percent
- Review timing of the receipts of competitive bids
- Conduct appropriate background checks on employee/vendors
- Review for recently formed companies/vendors receiving work
- Review for two or more vendors providing same service
- Analyze any unusual costs for fees
- Examine any weakness in segregation of duties.

Review for any fraudulent red flags:

- Management override of key controls.
- Inadequate or weak internal controls.
- No written policies and procedures.
- Overly complex organizational structure.
- Key employee never taking leave or vacation.
- High turnover rate, reassignment, firing of key personnel.
- Missing electronic or hard copy documents that materialize later in the review.
- Lost or destroyed electronic or hard copy records.
- Photocopied documents instead of originals. Copies are poor quality or illegible.
- "Unofficial" electronic files or records instead of "archived" or "official" files or records.
- Revisions to electronic or hard copy documents with no explanation or support.
- Use of means of alteration to data files.
- Computer-generated dates for modifications to electronic files that do not fit the appropriate time line for when they were created.
- Missing signatures of approval or discrepancies in signature/handwriting.
- Computer report totals that are not supported by source documentation.
- Lengthy unexplained delays in producing requested documentation.

Construction Fraud Risk Assessment – Questionnaire

The Fraud Risk Assessment Tool we have developed for construction includes three general modules and three modules specific to construction. Each module contains a series of questions designed to help focus on areas of risk. We work with the owner to answer the questions for each module.

The following is a summary of selected modules and questions:

Risk Area: Employee Assessment:

The employee assessment questions are designed to assess the probability of a fraudulent event occurring within the organization based on:

- Internal controls.
- Internal control environment.
- Resources available to prevent, detect, and deter fraud.

A sample of the 34 questions in this module include:

1. Are employees provided formal written job descriptions?

In addition to clarifying what employees are responsible for, job descriptions signify what employees are not responsible for. Employees who perform duties outside of their job descriptions represent a big red flag.

2. Are employees provided with an organizational chart that shows lines of responsibility?

Organizational charts provide employees with a snapshot of an organization's division of work, levels of management, and reporting relationships.

3. Does the company have written accounting policies and procedures?

Accounting policies and procedures, including those related to fraud, should be documented, implemented, and communicated to employees.

Risk Area: Management/Key Employee Assessment

The management/key employee assessment questions are designed to assess the probability of a fraudulent event occurring within the organization based on:

- Internal controls.
- Internal control environment.
- Resources available to prevent, detect, and deter fraud.

A sample of the 41 questions in this module include:

1. Is the board of directors composed of mainly officers of the company or related individuals?

The board of directors should include independent board members that are not associated with or employed by the company. In theory, independent directors are not subject to the same pressures as management and, therefore, are more likely to act in the best interest of shareholders.

2. Is there an independent audit committee?

Independent audit committee members with financial and accounting expertise can be instrumental in preventing and detecting financial fraud.

3. Has there been high turnover of managers and members of the board of directors?

Management should investigate the reasons for high turnover and implement measures to reduce it.

Risk Area: Physical Controls to Deter Employee Theft and Fraud

The physical controls assessment questions are designed to assess the probability of a fraudulent event occurring within the organization based on:

- Physical controls in place to control access to accounting records and information.
- Physical controls in place to protect the assets of the organization.

A sample of the 12 questions in this module include:

1. Does the organization conduct pre-employment background checks to identify previous dishonest or unethical behavior?

Before offering employment to an applicant, a company should conduct a pre-employment background check.

2. Are there policies and procedures that address dishonest or unethical behavior?

The company should document and implement policies and procedures that describe (1) unethical conduct, (2) punishment for engaging in unethical conduct, and (3) how to report unethical conduct.

3. Does management support the ethics and anti-fraud policies?

Senior management sets the tone for ethical conduct throughout the organization. The tone should signal that fraud will not be tolerated.

Risk Area: Corruption and Kickbacks

Bribery schemes involve the offering, giving, receiving, or soliciting of a thing of value to influence a business decision.

- Kickback schemes occur when vendors make undisclosed payments to employees of purchasing companies in order to enlist the employees in overbilling schemes.
- Bid-rigging schemes occur when an employee fraudulently assists a vendor in winning a contract through the competitive bidding process.
- Economic extortion schemes occur when an employee demands payment from a vendor for decisions made in the vendor's favor. Refusal to pay the extorter results in harm to the vendor.
- Illegal gratuities schemes involve giving or receiving something of value to reward a business decision.

A sample of the 13 questions in this module include:

1. Is there a company policy that addresses the receipt of gifts, discounts, and services offered by a supplier or customer?

Organizations should implement a policy that addresses the receipt of gifts, discounts, and services offered by a supplier or customer.

2. Is there an established bidding policy?

Organizations should establish a bidding policy.

3. Are purchases reviewed to detect out of line costs?

Organizations should review purchases for costs that are out of line.

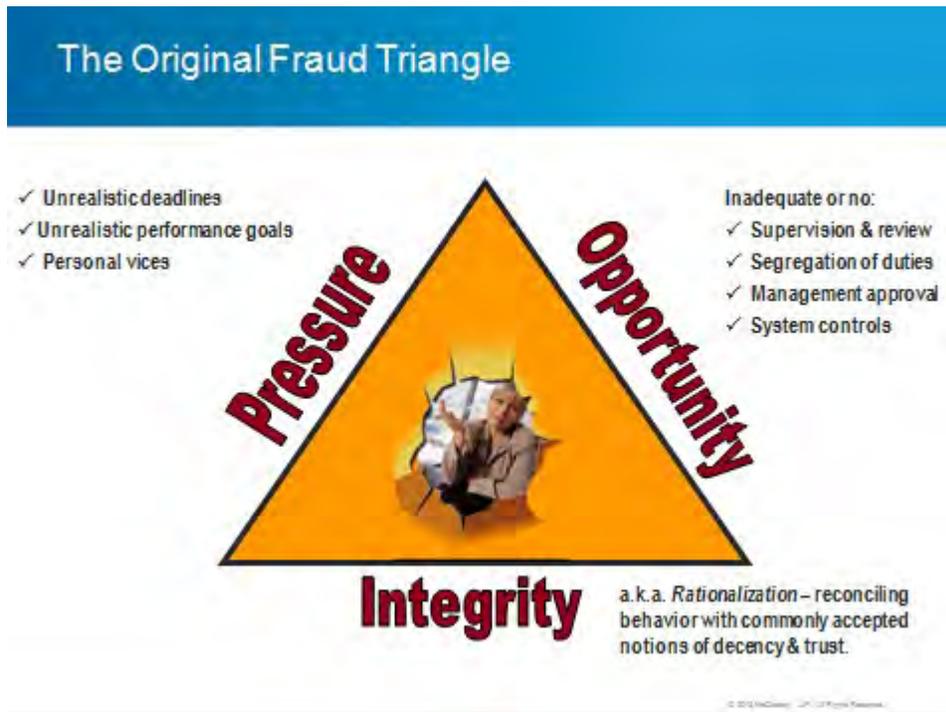
Technical Section – Fraud Risks / Scenarios and Methodology

The following concepts should be included in the performance of a fraud risk assessment unto the development of a fraud risk plan to execute, deliver and monitor on an ongoing basis. The use of various fraud scenarios is an effective way to identify the key risks to facilitate the most effective mitigating controls – both preventive and detective.

The following represents various training tools, fraud scenarios, red flags and other attributes that can be utilized in the development of a robust fraud risk plan:

- The Fraud Triangle and Diamond Methodology and Concepts
- Various statistics and areas of high risks
- The most common fraud schemes
- The profile of a fraud perpetrator
- The profile of an organization at risk
- The cost of fraud including economic and political
- Different warning signs and common red flags
- Detection methods as well as Prevention tactics
- Individual responsibilities in creating the right culture

The following depicts the traditional fraud triangle that illustrates key risk factors to consider:



Updated Fraud Diamond

The updated diagram that depicts the key fraud risks, the Fraud Diamond, drills down further and unpacks the more cognitive factors that drive individuals to commit fraud.



In particular the fourth fraud risk explicitly called out is “capability.” At any rate, these four fraud factors are the key risks that need to be part of any fraud risk assessment whether entity-wide or on a project by project basis. Interviews and surveys are the most common tools that must be employed to assess the level of risk an individual or company relative to each of these factors. The more that these factors are present, the higher the risk of fraud may be committed.

The number one detector of fraud continues to be the “whistleblower.” The next highest detectors of fraud are internal audits followed by effective internal controls. We have extensive experience in assisting clients in the area of fraud assessment, identification and mitigation. We have helped clients develop antifraud programs through a combination of the following phases:

1. Fraud Awareness Training
2. Scenario Based Fraud Risk Assessment
3. Control Activity Design Assessment
4. Control Activity Operating Assessment

Phase 1 - Fraud Awareness Training

We have an experienced team of professionals that dedicate **100%** of their time providing risk and control based outsourced internal audit services, Sarbanes Oxley implementation, fraud and forensic consulting, enterprise risk management, and extensive information system consulting.

Certifications of the team members include:

- Certified Public Accountants
- Certified Internal Auditors
- Certified Fraud Examiners
- Certified Information Systems Auditors
- Six Sigma Black and Green Belts

This means we understand the environment in which you work, are trained to work in this industry, and can provide relevant feedback which ultimately adds value.

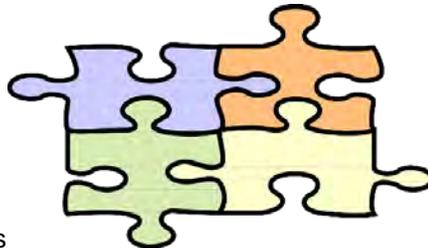
The key objectives to keep in view in fraud awareness training consist of:

- How to better detect, deter, and prevent fraud
- Evaluate fraud risk factors
- Identify possible fraud schemes/scenarios
- Prioritize identified fraud risks
- Evaluate whether mitigating controls exist
- Assess whether mitigating controls are effective

Further, there are three key objectives in developing antifraud programs:

1. Prevent - Reduce the risk of fraud and misconduct from occurring.
2. Detect - Discover fraud and misconduct when it occurs.
3. Respond - Take corrective action and remedy the harm caused by fraud or misconduct.

The most effective way to conduct fraud awareness training is the proper use of the facilitated sessions. We help fit the pieces together to see the "Big Picture."



- Trained Facilitators
- Efficient and Effective
- Common Language
- Encourages discussion and enhanced process
- Identification of Risk
- Key control points

Phase 2 - Scenario Based Fraud Risk Assessment

Step 1: Document Risk Assessment

- Conduct facilitated sessions to identify fraud risks
- What fraud scenarios exist?
- Assign inherent risk rating – likelihood, significance and pervasiveness

[Definition: Inherent Risk = Risk of an occurrence before the effect of any control that exists]

Step 2: Complete Control Analysis

- Identify key controls
- Preventative (upstream) vs. detective (downstream)
- Automated vs. manual

Step 3: Populate / Develop Fraud Risk Assessment Tool

Phase 3 - Control Activity Design Assessment

Following prioritization of the organization's fraud risks in Phase 2, this phase will comprise an assessment of the selected controls to include:

- Evaluate controls for existence and design effectiveness
- Identify potential gaps in controls
- Identify opportunities for improved controls and/or efficiency

Phase 4 - Control Activity Operating Assessment

Control activities would be tested for selected fraud risks to determine if the controls are operating as designed and accomplishing the control objectives, as well as examine any evidence of anomalies identified.

Our testing procedures would include:

- Sample control re-performance
- Observation
- Utilization of automated scripts to identify fraud

Fraud Management: Ongoing Monitoring

McGladrey will evaluate all controls specifically intended to address the risks of fraud that have at least a reasonably possible likelihood of having a material effect on the company's financial statements. Controls related to the prevention and detection of fraud often has a pervasive effect on the risk of fraud.

Such controls include, but are not limited to:

- Controls restraining misappropriation of Company assets that could result in a material misstatement of the financial statements;
- Company's risk assessment processes;
- Code of ethics/conduct provisions, especially those related to conflicts of interest, related-party transactions, illegal acts, and the monitoring of the code by management and the audit committee
- Adequacy of the internal audit activity and whether the internal audit function reports directly to the audit committee, as well as the extent of the audit committee's involvement and interaction with internal audit;
- Adequacy of the Company's procedures for handling complaints and for accepting confidential submissions of concerns about questionable accounting or auditing matters.

Using Data Mining Tools for Operating Effectiveness Testing

Tools & Techniques	Advantages
<ul style="list-style-type: none">• Cross-matching data between data sets and data systems• Test for gaps and duplicates• Identifies exception items• Stratification• Verifies calculations• Benford's Analysis• Off-the shelf software	<ul style="list-style-type: none">• Wider scope of investigations• Potentially cover 100% of the transactions• Highly focused and accurate analysis of data• No file size limitation• Multiple automated compatible tasks running consecutively

Please see Appendix for sample reports.

Task F – Internal, IT and Construction Auditing

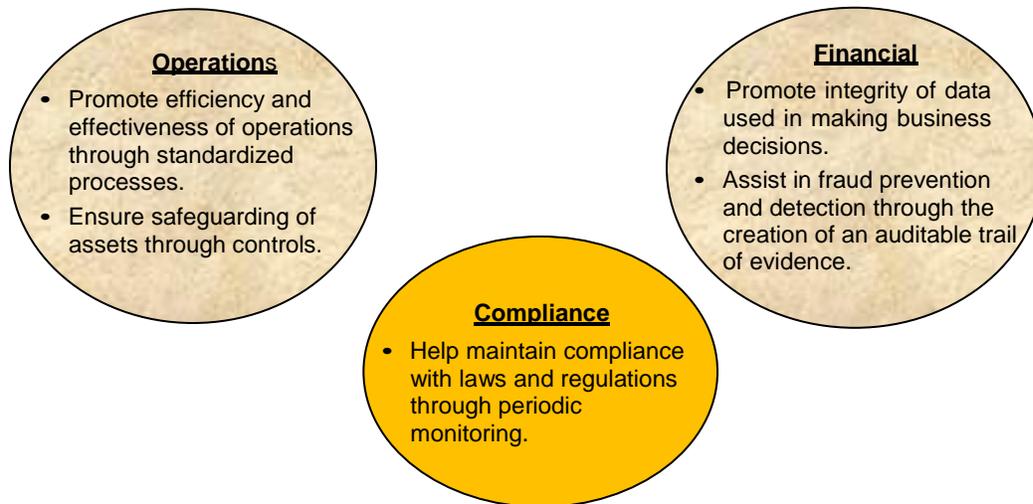
This section presents McGladrey’s standard audit approach and techniques for each of the following: (1) an program- wide risk assessment leading to the preparation of a strategic risk-based, multi-year internal audit plan for the NJ TRANSIT; (2) performance audits in general; (3) information technology audits; and (4) forensic audits.

In this proposed Audit Plan, we also describe the specific audit work (or responsibilities) that would be performed by each respective professional level in our firm such as partner, manager, supervisor, senior and semi-senior member, etc.

McGladrey's Internal Audit Philosophy

When it comes to providing internal audit services through our risk advisory services methodology, we do not subscribe to the “one size fits all” doctrine. Our approach for each engagement is to partner with our client to fully understand their needs and then work with them to custom-design solutions that are responsive to those specific needs and objectives.

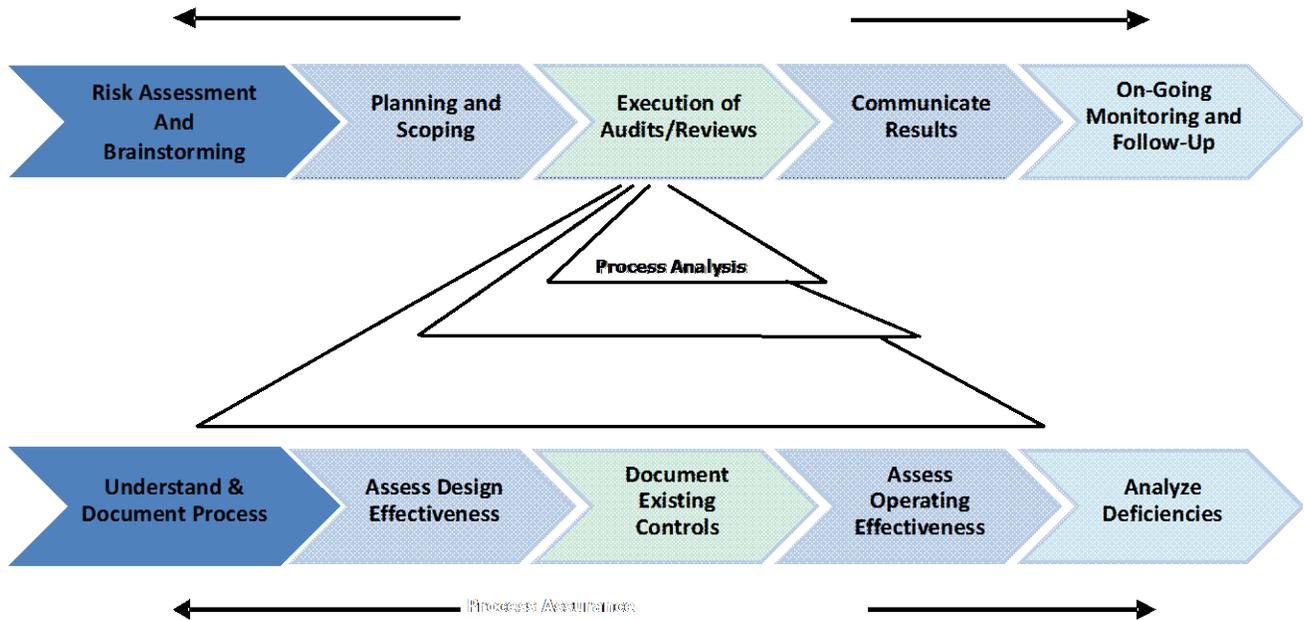
Our internal audit methodology utilizes the broad definition of internal control as described in the Committee of Sponsoring Organizations (COSO) Internal Control Framework, which is the standard of internal control. This is an integral component of our integrated risk advisory audit approach, and it is built into both our methodology and our risk advisory software platform, Auditor Assistant™. This framework allows us to focus our internal audit approach on the relatively higher-risk activities and the related control structure. It also results in value-added insights to your organization, including operational improvements that reduce cost, enhance revenue and improve client service.



This philosophy and methodology applies to all of our audits, regardless of type. However, upon selection as the NJ TRANSIT’s contractor for Internal Audit Services and issuance of subsequent Work Authorization (WA), we will submit a detailed scope of work and audit plan describing our tailored approach to the WA requested. We will modify the approach as needed to fit the unique objectives of each WA. For forensic and other sensitive audits, we will also adhere to chain of custody and privileged information requirements as deemed applicable by the NJ TRANSIT or other counsel as appropriate.

McGladrey Internal Audit Process

The following diagram depicts an overview of our general approach to the internal audit process.



Our approach incorporates the broad definition of internal control as described in the COSO Internal Control Framework, the standard of internal control (see next page for a high level summary of the dimensions of the COSO framework).

The COSO framework was recently updated in 2013 and our professionals already have a thorough understanding of the updates, demonstrated by our thought leadership that includes a whitepaper titled “An overview of COSO’s 2013 Internal Control-Integrated Framework” and webcast of the same name.

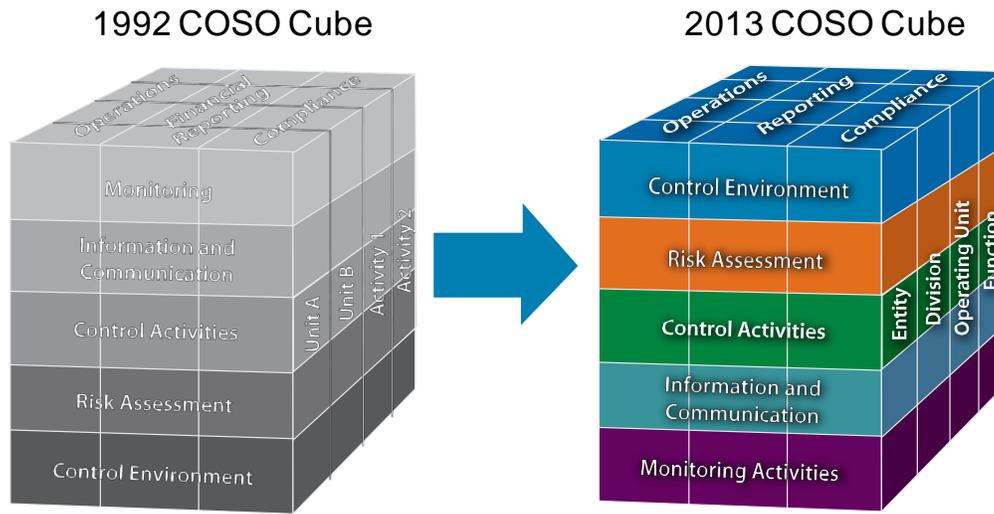
The first dimension is objectives. Internal controls are designed to provide reasonable assurance that objectives are achieved in the following categories:

- (1) Effective and efficient **operations**;
- (2) Reliable **reporting**; and
- (3) **Compliance** with applicable laws and regulations.

The second dimension represents the five components of internal control.

The third dimension represents the individual transaction cycles and activities being evaluated.

The figure below highlights the 2013 COSO updates.



Internal audit methodology principles

Many firms are content to view internal audit as a purely reactive, back-office function that sets a plan once every few years, and goes about its execution in an unwavering manner — auditing the same routine areas in the same routine ways. From experience, we have found that organizations receive far less value from this type of static, passive approach.

Our approach to providing internal audit out-sourcing is founded on the following principles: **Internal audit should focus on both rewarded and unrewarded business risks.** When we perform our internal audit risk assessments, we conduct an extensive analysis of your strategic plans, department objectives, and related organizational enablers and incentives. Additionally, we will assess “what can go wrong” with respect to business and financial processes. As a result, we will develop an internal audit plan that is “balanced” across the broad spectrum of auditable risks that you face. We will also provide perspectives on risks that cannot be effectively audited, and discuss perspectives on the monitoring and treatment of those risks.

Responding to change is more important than following the plan. Your internal audit plan should be flexible and regularly re-assessed in order to give specific attention to specific risks; long-term plans often grow stale and become irrelevant. We will work with NJTIAD to discuss whether internal audit focus should be reprioritized based on emerging risks and opportunities to the NJ TRANSIT.

Internal audit is not just about testing internal controls. In order to be a business-relevant function, internal audit should also monitor industry and operational trends, convene cross-functional brainstorming, provide objective subject-matter expertise, and challenge the status quo for purposes of providing fresh insights. We will also plan, execute, and report on internal audits consistent with the standards of our profession.

Internal auditors have a seat at the table. We believe internal audit personnel should be regularly involved in key business initiatives and any changes to the administration of the program; internal audit should not just “sit back and audit.” Moreover, internal audit should be a trusted voice to the business, and must provide risk reporting that matters to the NJTIAD.

McGladrey Internal Audit Approach

Our approach consists of five separate phases:

Phase I - Risk Assessment

The initial phase of our work with the NJ TRANSIT will include an overall entity-wide risk assessment. A risk assessment is the identification and analysis of relevant risks to the achievement of an organization's objectives, for the purpose of determining how those risks should be managed.

- Initial determination of operating objectives
- A systematic identification of those things that could prevent each objective from being attained.
- Forms a basis for how risks can be managed.

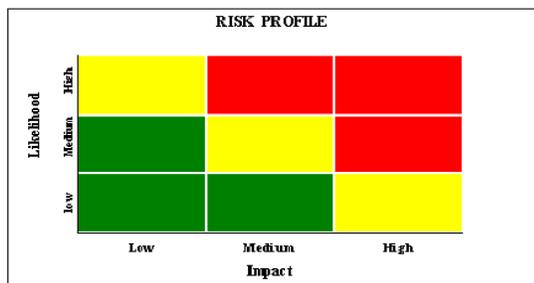
The initial risk assessment will identify the audit universe and measure the impact and likelihood of key risks to those areas to ensure that the proposed audit plan focuses the internal audit resources efficiently and effectively. Our process combines various methods of information gathering and concludes with a collaborative session to ensure that we are all the same page. The objective of the risk assessment is to ensure that the organization has sufficient and continuous internal audit coverage of those areas judged as having a relatively high risk profile considering both impact and likelihood.

We will conduct interviews and surveys, gather data, review laws and regulations and other information as deemed necessary in order to better understand the NJ TRANSIT and the surrounding environment. Once the interviews / surveys are completed, summarize the risks that were identified and rate them as high; moderate or low based on the likelihood of the risk actually occurring and the potential impact.

- Impact should be evaluated both quantitatively and qualitatively.
- This risk prioritization process drives future allocation of resources.
- Other factors to consider may include speed of onset, vulnerability, etc.

We will develop a risk profile for the NJ TRANSIT that is based upon these factors, taking into consideration the following key risk areas:

- Financial - measure of the financial significance of the account balances included on the income statement, balance sheet, or statement of cash flows specific to the business area under consideration.
- Operational - addresses the ability of the business area to manage its internal/external processes and/or deliver its core product/service offerings in an efficient and effective manner.
- Compliance - considers the degree to which the business area may not be in compliance with laws and regulations, contractual agreements, organizational policies and procedures, commitments, etc., increasing the company's exposure to fines, penalties, and/or sanctions.
- Public perception - considers the impact of a control deficiency on the public trust. This factor is generally considered a magnifier in the presence of one of the other factors.



The annual audit plan should be based on the results of the risk assessment (or upon the update of the previously prepared risk assessment). Once the annual audit plan is approved, we will work with the Internal Audit Manager to plan and perform the audits.

Our approach to individual process assessments includes defined objectives, established critical paths, setting of key success factors and defining milestones. This will ensure a well thought out audit process, which ensures a successful execution of the individual process assessment.

Phase II: Planning and Scoping

Once the risk assessment is completed, the planning and scoping process begins. The risk assessment serves as the primary basis for determining the audit plan for the upcoming fiscal year. Ideally, high risk areas will be identified and addressed in the audit plan (although risk rating is not the only factor in determining which process areas or functions to audit). The proposed schedule for completing the audits over the upcoming year is also discussed.

Major work steps

Agree on a communication plan to assess project status on a regular basis.

Collaborate to identify auditable entities and processes to be audited.

Develop the internal audit reporting approach, including analysis of stakeholder informational needs, format, and frequency.

Determine the various sub-processes that contain the greatest risk.

- Create a schedule for the engagement and communicate a list of items needed.

Deliverables

- Audit plan outlining the proposed audits for the upcoming fiscal year.

Phase III: Execution of Audits

This phase consists of two steps that often overlap, but sometimes are completed sequentially.

Document Existing Controls and Assess Adequacy

The objectives of this phase is to assess the current state of processes and determine if the design of the control activities within the various processes (assuming they are deemed effective when tested) are adequate to mitigate significant risks.

Our specific activities for this phase will depend on the amount of documentation for the processes being audited. For processes with detailed control documentation, we will review the documents and hold follow-up discussion as need. For processes with limited documentation we will hold “working sessions” with department staff to examine processes and develop transaction and process maps. The purpose of the sessions will be as follows:

- Provide dedicated time to facilitate appropriate understanding of the process.
- Understand the flow of transactions, including how transactions are initiated, authorized, recorded, processed and reported.
- Identify the points within the process at which a misstatement could occur – including a misstatement due to fraud.
- Identify the controls that management has implemented.

As we review policies, develop process maps, or both, we will document existing controls and match those controls to risks identified in the Risk Assessment phase and the detailed process review in this phase. The risk matrix will be use to prioritize the key risks to determine the proper level of controls as well as risk coverage. The matrix will also allow for detailed test programs to be written in the next phase.

We will evaluate the operating effectiveness of controls during testing in the next phase of the audit. However, if the design of a control is flawed, the desired assurance that the control is capable of preventing or detecting an error or irregularity cannot be provided even if the control is operating as intended. We will clearly articulate design gaps and provide remediation plans to help the department or function address the gaps.

Major work steps

- Gain a thorough understanding of the processes and existing controls.
- Develop documentation that highlights what risks are prevalent, the risk’s impact to the department or function and the control activities in place to mitigate the risks.
- Assess and categorize controls (key and secondary) using this newly created documentation. The purpose of this exercise is to focus on the key controls that will be tested and relied upon in future phases.
- Develop recommendations for remediation of any control design gaps.

Deliverables

- Provide feedback on updates to policies or process flow diagrams (or assist in the preparation of policies and/or flowcharts if they do not exist and are requested – which could be addressed as a separate addendum to this engagement).
- Updated risk and control matrix, which describes the inherent risks and key controls, owner of the controls and other information related to the controls.

Because there are technology implications to changing business processes, IT application controls are identified and inventoried during the business process walkthroughs of this phase. These controls are embedded within software applications to prevent or detect unauthorized transactions. When combined with manual controls, application controls ensure completeness, accuracy, authorization and validity of processing transactions.

Test Controls (as needed) and Analyze Gaps

Once the project team has determined the design of the control activities (previous phase) and processes, specific testing should be performed to verify if the controls worked as intended and what control gaps exist. During this phase we also develop and perform the testing required to validate the effectiveness of the processes. This phase requires going out into the field and sampling and testing department data (as necessary). To facilitate review and approval by the various interested parties (e.g., department staff and/or process owners), formal test plans will be utilized to document the key elements of the test and the results.

During our testing, we will document potential control deficiencies and discuss them in a timely manner with appropriate staff. We will share our supporting evidence and discuss potential root causes for the deficiency to determine if it is a reportable finding. We also use these discussions as an opportunity to hear department staff share their ideas and recommendations for improvement, given the staff are the ones consistently in the field executing the department’s activities.

Internal controls are a process affected by an entity’s management and other personnel – designed to provide reasonable assurance regarding the achievement of objectives. Example control activities are as follows:

Financial Reporting Process Controls	Operational Process Controls	Compliance Process Controls
<ul style="list-style-type: none"> • Accurate, timely and reliable management reporting • Segregation of Duties • Authorization • Written policies and procedures • Physical security • Reconciliation 	<ul style="list-style-type: none"> • Response time • Approval • Supervise activities • Evaluate processes to eliminate, simplify and focus nonessential tasks • Test and pilot improvements 	<ul style="list-style-type: none"> • Legal and regulatory monitoring • State & regulatory compliance • Articulate compliance policies • Communicate policies • Integrate compliance activities into business processes • Manage and monitor

Test plans will cover controls that are selected for testing and should specify the following key elements:

- **Key controls to be tested** – Normally management will summarize the controls to be tested at the financial statement assertion level.
- **Nature of tests to be used** – Tests should be categorized as inquiry, observation, examination, or re-performance.
- **Extent of testing** – The plans should specify the number of items that are to be tested and the method and reasons for selecting those items.
- **Timing of procedures** – The plans should specify when the testing should be performed and the time span that the tests cover, including update testing planned from the interim testing date to year-end.
- **Description of the test** – The plans should specify the procedures to be performed and the assertions supported.
- **Key administrative items** – The plans should identify who will perform the test, when the test will be performed, what evidence will be reviewed, and where the control is performed.
- **Documentation** – The plans should describe the documentation required.
- **Exceptions** – The plans should describe how exceptions will be investigated and addressed and when additional testing should be performed.

Once we determine a finding we will assign a rating based on the severity of the finding and its potential impact on the department or function's operations. This rating will enable the NJ TRANSIT to prioritize resources to mitigate the most critical findings.

Major work steps

- Create a test plan (including sampling methodology).
Request transaction documents, data or evidence.
- Execute test, preserving appropriate documentation as required.
- Analyze exceptions and determine findings and conclusions.
- Discuss initial findings and potential recommendations with department staff.
- Analyze process effectiveness and develop recommendations.

Deliverables

Test plan and related testing results.

Phase IV: Reporting

Our reports will include clear and concise communication regarding the results of our audits as well as best practice recommendations. We pride ourselves in not just identifying problems, but bringing solutions. We will provide detailed recommendations that adhere to our guiding principles of always adding value and understanding our clients operations. We will not recommend controls that add bureaucracy and reduce the department’s efficiency.

The following is an example of sections, which may be included in a typical report:

Background	This section will provide an overview of the function within the sub-entity and pertinent operational control points and related compliance issues.
Risk & Control Matrix	A matrix which identifies inherent risk within the process, related mitigating key controls, control gaps and related recommendations.
Identified Issues and Recommended Actions	Based on the Risk and Control Matrix, the team will work with Management to develop recommended actions, process enhancements/efficiencies and estimate potential loss/damage.
Flowcharts	Each process will be documented in a flowchart which identifies data flow, key control points and any identified gaps.

Throughout the process, as we identify risks and observations, we will rate them for relative risk. Relative risk is an evaluation of the severity of the concern and the potential impact on operations. They are categorized as follows:

High Risk	Considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner.
Moderate Risk	May also cause operational issues and do not require immediate attention, but should be addressed as soon as possible.
Low Risk	Could escalate into operational issues, but can be addressed through the normal course of conducting business.

By using the High, Moderate and Low categories it will enable the NJ TRANSIT to prioritize resources to mitigate the identified observations. We will address each observation on the spot with process owners and/or management as they come to our attention as well as documenting the observations in our reports. We will work with the NJ TRANSIT and follow the guidelines set out in the RFP. Working together we will customize our process to be effective, efficient and respectful of the operations of the NJ TRANSIT.

For each finding we will provide a thorough description of the issue and any exceptions noted, a detailed recommendation, management’s response including responsible party and estimated completion date, as well as the overall risk rating of the issue. We will not shy away from discussing our challenges and concerns, nor will we neglect to commend members of the department where risks are being effectively managed.

We know from experience that when process owners are involved in the planning of operational audits, they are much more likely to support the ultimate success of the project — including ownership of recommendations and responses. We also know that in order to enhance the involvement of process owners, McGladrey’s management team and staff must establish meaningful relationships across your organization so that our insights are ultimately valued and trusted.

We will also transfer knowledge to the NJTRANSIT's staff whenever appropriate so they will become more familiar with the internal process control audit process.

Major work steps

- Meet with appropriate staff to discuss our findings and proposed recommendations.
- Convene our subject-matter resources, and discuss industry, regulatory, or technical insights that may be business-relevant to the department.
- Draft report and develop recommendations.
- Deliver insights to management and collaborate on the development of practical corrective action plans, including target dates of completion and individuals responsible for key actions.

Deliverables

- Final report with findings and recommendations for control and process improvements

Phase V: On-going Monitoring (Issue Resolution Tracking)

Issue resolution tracking completes the audit cycle. It is a critical component of a successful internal audit function. It monitors the progress of management's agreed-upon action plans and reports progress to senior management and the Board. The specific responsibilities for this phase can be performed by the NJIAD or McGladrey can be retained to perform the necessary follow-up to ensure control changes have become permanent. We can develop the tools and processes for tracking remediation plans, and we can also perform testing to validate the plans once they are complete. The NJ TRANSIT will be responsible for implementing the plans and providing status updates.

Other Factors to Consider in Evaluating McGladrey as an Internal Audit Partner

Internal Audit Tools and Technology

Using Technology – An Integrated Approach

A key component of our internal audit methodology is an integrated approach with our Technology Risk Advisory Services group. While the annual audit plan may include individually scoped audits that are specifically technology related, we recognize that most audits will have some relation to your technology platforms and may require expertise beyond standard IT general controls. We will work with your technology team to best determine how to obtain the information we need, and our technology team to best understand how to test your systems efficiently and effectively. This bridge approach allows us to penetrate the 'black box', rather than audit around it, and provide solutions that could also potentially streamline automated processes, as well.

McGladrey invests significantly in a variety of flexible technology platforms and tools to support engagement teams and clients with internal audit services and improve the execution of our internal audits. Our technology and tools allow us to provide a variety of flexible reporting options to meet your specifications. To ensure an efficient and consistent approach used throughout the audit, we have the option to utilize Auditor Assistant™. This tool can aid our team in ensuring that all critical components are captured in a robust manner. Auditor Assistant™ is a powerful team-based system which streamlines and automates the entire internal audit process. Other tools we may use on this engagement to serve your needs are outlined below.

Technology Platform or Tool	Description and Features
Data Mining, Extraction and Analysis CAAT Tools	We utilize IDEA as data mining and extraction tools. In addition to some of the more common audit retrieval tools, these tools improve audit efficiency and effectiveness.
SharePoint	Microsoft SharePoint can be used to distribute information within the Authority team. Through the use of SharePoint, a web based collaboration tool, we provide our clients with a variety of communication portals. This tool allows our teams and your teams to work collaboratively and greatly assists with reducing fees from year to year.
Security Tools	We use a variety of commercial and public domain software in performing our internet and network security reviews. Your external and internal network environments will determine which of these tools are used.
Segregation of Duties	We have tools and a methodology to help client gain data and insight to help prioritize process improvement initiatives.
Leading Practice Control Catalogs	We have leading practice control catalogs for industries, business process and enterprise resource planning systems our teams utilize to prioritize process improvement areas.

Data Interrogation Tool



Whenever possible, we request and use electronic copies of your records. We also utilize IDEA™ as our data mining and extraction tool. In addition to some of the more common audit retrieval tools, IDEA also improves audit efficiency and effectiveness through the use of the following functions:

- Sampling including planning, selection and evaluation for systematic, random, stratified random, monetary unit, and attribute sampling plans.
- Field manipulation that allows fields to be appended for calculations and re-computations. Field statistics which display and print statistics about any numeric or data field in the file. Search for duplicate testing (Vendors, invoices, checks, adjustments, etc.).
- Gap detection testing to ensure that the data is complete when we perform our analysis.

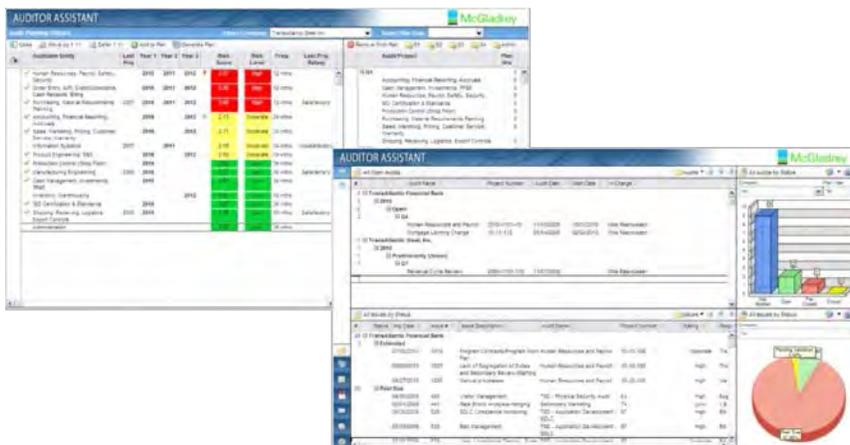
Common areas where we utilize IDEA to our advantage during our internal audits include testing of vendor and employee master files, analysis of expenditures, compliance testing and related-party/conflict-of-interest testing.

Auditor Assistant (paperless tool)

We have the ability to utilize an electronic internal audit documentation tool called Auditor Assistant. This tool will aid in ensuring that all critical components are captured in a robust manner to ensure consistency across the organization. This tool is utilized as follows:

- Document all significant processes
- Capture process and control owners
- Capture process risks and key controls
- Capture audit test plans
- Repository for process flows
- Repository for audit work papers
- Tracking control gaps and remediation efforts

Auditor Assistant is a powerful team-based system which streamlines and automates the entire internal audit process. Information in Auditor Assistant transparently flows throughout the audit organization. It allows the ability to lock client information to a defined team or provide access to the entire Firm.



Access to Subject Matter Expertise

One of the advantages of working with a firm of our size is the access to a wide range of subject matter experts to address any issue or topic facing the NJ TRANSIT. As we conduct the audits, we will draw on appropriate subject matter experts to provide in depth insight and the best possible recommendations.

Examples areas of subject matter expertise include:

Federal Compliance

- Our assurance professionals have extensive experience providing audits in compliance with OMB Circular A-133, state single audit acts, agreed-upon procedures relating to various compliance requirements (e.g., NCAA), and benefit plan audits. We routinely conduct training courses for our clients on how to organize and conduct an effective government grant program to ensure compliance with Federal requirements (we also address common pitfalls to avoid).

Business Continuity Planning and Disaster Recovery

- Without proper planning, a natural or man-made disaster could threaten an organization's ability to continue its operations. An effective business continuity plan can help identify and reduce those risks. Our business continuity consultants can be leveraged to review the NJ TRANSIT's business continuity and disaster recovery plan to ensure you are prepared to recover from an unforeseen crisis.

Procurement and Strategic Sourcing

- McGladrey advisors assess and develop a number of strategies to reduce the indirect expenditures (technology, office supplies, etc.) for larger organizations to provide significant bottom-line impact. We accomplish this using a spend analysis methodology that has delivered significant annual cost savings for clients.

Security and Privacy Risks

- Protecting your organization against business risks is more than compliance—it's a strategic opportunity. Fraud, virus attacks and unintentional information exposures are major and costly concerns in today's business environment. Our security professionals have experience providing a range of services offers from network and application security review to information systems (IS) controls review to industry-specific regulatory reviews and assistance.

Construction Audit Methodology



I. Planning: General Administration/Project Familiarization/Key Risk Identification

McGladrey will conduct facilitative session(s) with relevant NJIAD personnel in an effort to obtain a more detailed understanding of the scope of the project and individual WA's, key risks, as well as any specific policies, procedures or other guidance applicable to the project. These sessions will include, but not be limited to:

A. Establish Project Administration Guidelines

- Client contact(s)
- Reporting protocols
- Workspace and logistics arrangements
- Workpaper generation, storage and retention protocols
- Formal and informal communications protocols
- Confidentiality

B. General Familiarization with Project

- Obtain an overview of the project.
- Schedule introductions to and discussions with project personnel.
- Establish a high-level understanding of the project scope.
- Review the key project budget and schedule documents.
- Obtain an understanding of the project management organization structure.
- Obtain an understanding of project spend and major contracts.
- Obtain an understanding of project management tools, processes, procedures and controls.
- Obtain an understanding of ownership and oversight structure.

II. Construction Audit Execution

McGladrey will perform detailed testing procedures to validate the reimbursable nature of all costs to the Owner incurred by the General Contractor. These procedures will include, but not be limited to:

A. Review of Applications for Payment for compliance with the contract including:

- Proper supporting documentation
- Billings in excess of costs
- Mathematical accuracy

B. Labor and Labor Burden review including:

- Billed to actual reconciliation
- Validation of actual cost through detailed testing of source documentation
- Reasonableness and consistency review of labor billing procedures
- Overtime pay review
- Contractual compliance of burden rates

II. Construction Audit Execution - continued

- C. Detailed source documentation and contractual compliance review of all General Conditions, Requirements and Contractor labor costs including, but not limited to:
 - Living expenses
 - Auto / Truck expenses
 - Travel
 - Equipment
 - Bonds and Insurance
- D. Change Order and Contingency Usage review including:
 - Rate contractual compliance (Fee, Insurance, Labor, etc.)
 - Mathematical accuracy
 - Proper incorporation into the schedule of values / application for payment
 - Entitlement
 - Proper approval
- E. Subcontract review for contractual compliance and to ensure costs have actually been incurred through the detailed review of supporting source documentation. These procedures are designed to detect billed overcharges as well as instances where NJ TRANSIT has not received the full value of all contracted work included in the Subcontract Agreement. These procedures include detailed testing of source documentation including, but not limited to:
 - Subcontractor Pay Applications
 - Reimbursable Invoices
 - Lien Waivers
 - Bids
 - Original Subcontracts
 - Reasonableness and Data Analytics to identify outliers, related parties and potential duplicative transactions
- F. Contractor's job cost to billings (final pay application) reconciliation
- G. Review of direct owner purchase invoices including:
 - Mathematical accuracy
 - Duplication with cost of work charges
 - Tax exemption
 - Proper incorporation into the schedule of values (if applicable)
- H. Detailed testing of source documentation through the following methods:
 - Statistical Sampling
 - Non-Statistical Sampling
 - High Value Scoping
 - Data Analytics
 - Reasonableness Tests
 - Industry Standard / Benchmark Comparisons
- I. Final Buyout / Savings validation

III. Vetting / Settlement

McGladrey takes an active approach to observation/finding validation by staying in constant communication with the Owner and the Contractor as findings are developed during each audit. As a result, we make every effort to obtain General Contractor acceptance of findings prior to reporting. We do this to ensure the most effective utilization of all involved party's time and resources. In the event a settlement or final negotiation meeting is required, McGladrey will attend and aid the Owner in the defense of each finding.

IV. Reporting

The following outlines McGladrey's standard procedures as it relates to construction audit services reporting:

- A. Prepare project audit reports as required
- B. Prepare status reports as required
- C. Review the reports with the client, refine as appropriate and obtain acceptance
- D. Prepare and present final project review results

McGladrey prepares reports consistent with the reporting guidelines as set forth by the Institute of Internal Auditors. The audit reports include an executive summary and our detailed observations which will include specific quantifiable findings, identified control deficiencies, and opportunities for improvement. McGladrey will provide a draft report for review prior to issuing the final audit report. While McGladrey will make every attempt to obtain the contractor's concurrence with the respect to the audit findings, McGladrey does not guarantee that it will obtain the contractor's concurrence.

In addition, if during the course of the engagement McGladrey identifies other areas or process improvements, these will be discussed with NJ TRANSIT. At NJ TRANSIT's discretion, McGladrey will prepare a report noting the area(s) of improvement and our recommendations for improvement.

IT Audit Approach

To be able to assess the technology related fraud risks, it is important that your auditors have the necessary expertise to understand the IT systems in use at NJ Transit and the contractors and how they impact the audit process. McGladrey has a specialized IT audit group, whose members have extensive backgrounds in assessing financial reporting and customized operational systems. These computer audit specialists, together with the audit team will identify the IT controls which need to be evaluated and the opportunities to implement computer assisted audit techniques for data extraction and analysis.

As part of our integrated audit process, we will assess the IT controls in the following areas where applicable:

- Entity Level/Strategic
- Change Management
- System Access
- System Development
- IT Operations

In addition, our IT audit professionals have significant internal and external audit experience. We act as IT audit experts, in either a co-sourced or outsourced capacity. Our proficiencies cover the entire range of IT audit needs – from strategy development, risk analysis, audit planning, scoping and resource allocation – to creating customized audit work programs, evaluating IT processes, and testing internal controls.

We perform many types of IT reviews – including general computing controls, vendor assessments, data and network security reviews, PCI assessments, privacy reviews, compliance reviews, business and web application pre and post implementation audits, disaster recovery capabilities analysis, and IT organization and governance assessments.

Information Systems Controls and Audit Approach

Understanding how key systems and processes contribute to your overall processing environment and affect the reliability of financial information is a primary element of our audit approach. Our objective is to assess whether the standards of security, integrity, continuity, and control are conducive to reliable processing, consistent with the County's technology standards and appropriate to safeguard your information assets.

McGladrey has established a Risk Advisory Services (RAS) group to assist clients to better understand risk, and implement approaches for better managing their risks. We have staff who work with various ERP and other systems to assess the design and implementation of security and controls. Further, we have individuals with significant implementation experience, and post-implementation assessment experience, with ERP.

IT General Controls

IT general controls are pervasive controls within the IT environment. The following types of IT general controls are typically addressed in our audit approach:

- **Logical Security (Access to programs and data)** – includes the components of management governance over Information Technology (policies and procedures, monitoring), application configuration (passwords, service accounts, super users, user identification / authentication), and security of the physical assets.
- **Change Control Management** – assesses program changes (upgrades, service patches, source code) moved into the production environment, and the processes applied to ensure the appropriate initiation, authorization, segregation, testing, and approval are evident.
- **Data Backup and Recovery** – reviews that the data backup process and ability to recover data for the financially significant applications, databases, spreadsheets and operating systems for the given opinion period are complete, tested and maintained, including the handling of errors.

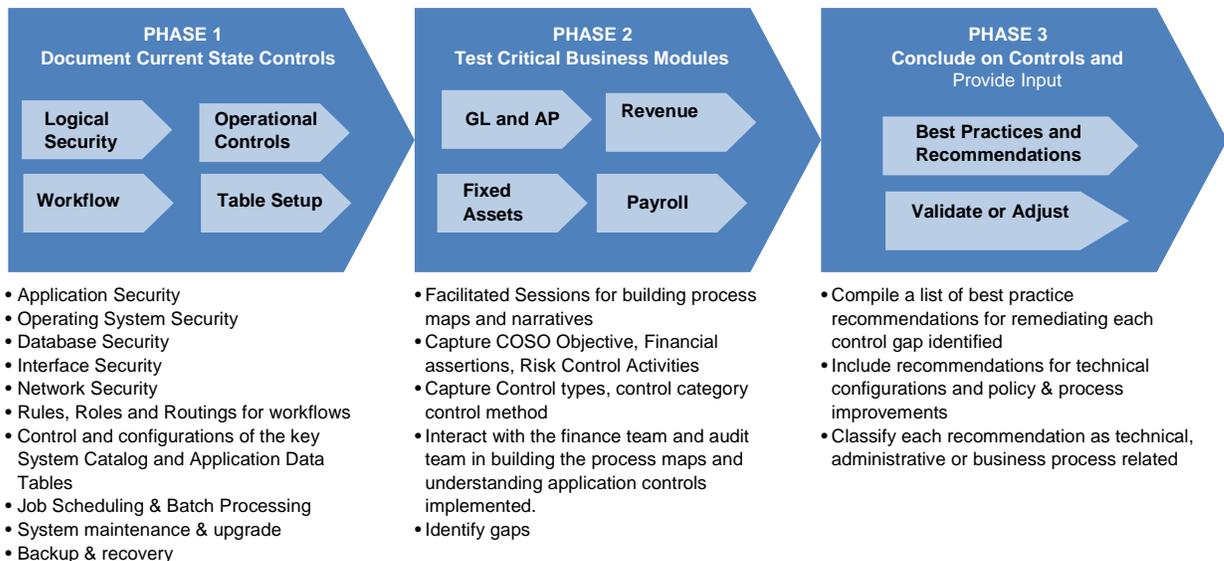
- **Job Processing** – tests for the completeness of data interfacing into the financially significant applications and the change management processes for handling errors, script changes and interface edits.
- **Security Administration** – addresses the user access provisioning (new hire on-boarding, position/role changes, employee separation) for the financially significant applications, databases, spreadsheets and operating systems along with management’s review of access for completeness, segregation of responsibilities and accuracy.

IT Application Controls

IT application controls apply to the business processes they support. These controls are embedded within the software applications to prevent or detect unauthorized transactions. When combined with manual controls, application controls verify completeness, accuracy, authorization and validity of processing transactions. The methodology we follow in assessing application controls is as follows:

- Define materiality by system, using business process mapping as a starting point.
- Map various transaction types to clearly identify key controls and determine if the control is an Application Control or a Manual Control.
- Utilize our proprietary questionnaires to help verify and test various types of automated controls:
 - Application Security Controls - Controls to verify that minimum access to applications is allowed for individuals to perform their job.
 - Input Controls - Transactions are initially recorded, entered and accepted by the application accurately and completely.
 - Processing Controls - Transactions are processed by the application programs accurately and completely.
 - Output Controls - Output is complete and is delivered (standard or customized) to the appropriate parties in an appropriate manner.
 - Interface Controls - Transactions between multiple systems are secure and integrity of the information transmitted is maintained, accurate, and complete.

Application Reviews - in addition to the above, we can document our understanding of specific elements related to NJ Transit’s key applications. The following graph illustrates our approach:



Section 5, Full Time Office

McGladrey will provide management of the contract from both our New Jersey office located at 224 Strawbridge Drive, Suite 110, Moorestown, NJ 08057 and our New York office located at 1185 Avenue of the Americas, New York, NY 10036.

Our project manager can be reached during regular business hours.

Section 6, Resumes

Resumes of our proposed engagement team can be located in [Appendix A](#).

Section 7, Qualifications of Individuals

Core Engagement Team Experience

McGladrey will provide experienced professionals who are dedicated to serving the needs of governmental entities. The public sector is one of our main focus industries on both the national and local level. This sector includes municipalities, school systems, authorities and other governmental entities in addition to not-for-profit organizations. Nationally, we serve more than 2,700 such organizations, including nearly 600 governmental clients.

Upon selection as the NJ Transit’s services provider, we will ensure that all proposed staff for NJ Transit’s monitoring services have met or exceeded the minimum governmental Continuing Professional Education (“CPE”) hours required by GAO’s Government Auditing Standards and overall CPE requirements instituted by the AICPA. Our Firm requirements exceed those required by the industry.

As shown below, we have identified supervisory and above team members to serve the NJ Transit, as requested in the RFP. Upon selection as the NJ TRANSIT’s contractor for Oversight monitoring Services and issuance of subsequent Work Authorizations (WA), we will submit individualized staffing assignments at the senior and staff personnel levels, as well as identify the MBE subcontractor personnel that will be utilized, if applicable. In general, our professional staff will be selected based upon the scope of the task orders issued, as well as the timing and extent of the work to be performed.

Engagement team biographies are included in Appendix A.

A summary of our team member’s role and qualifications is provided below. All personnel who will be assigned to the NJ TRANSIT engagement are full-time employees of the firm.

Team Member	Role and Value to NJ Transit	Qualifications
Pat Hagan, CPA Partner National Lead, State and Local Government	Pat is the national lead for the state and local government practice. Pat will lead the team and have overall responsibility for the delivery and quality of all the services and to ensure that the WA’s are appropriately staffed and delivered in a quality, timely manner.	<ul style="list-style-type: none"> Leads national practice and selected compliance and regulatory assessment engagements Currently serving as Auditor General for a large transit authority
Peter Brady, CPA Partner Risk Advisory Services	As the risk advisory partner, Peter will have overall responsibility for the delivery and quality of all internal audit services. He will be responsible for the professional and regulatory standards of our work throughout the engagement. Peter will provide guidance and oversight to our team on all matters related to risk management and the assessment of risk and related internal controls.	<ul style="list-style-type: none"> Leader of the Firm’s Risk Advisory Services Practice Over 23 years of experience in consulting focused on governance, internal audit, internal controls and risk management

Team Member	Role and Value to NJ Transit	Qualifications
Bob Rooney, CPA Director Assurance Services	Bob will be responsible for compliance with the applicable auditing, professional and regulatory standards in our reporting throughout the engagement. He will be the on-site project manager responsible for coordinating services and related reporting on project status.	<ul style="list-style-type: none"> Over 40 years experience in serving public sector entities Has managed with over 3,000 service hours. Compliance specialist
Shawn Dahl Director Risk Advisory Services	Shawn will work with the team to ensure that the internal audit and monitoring-related WA's are appropriately staffed and delivered in a timely, quality manner. This will include assisting Mary in the development of the fraud risk assessment plan, execution delivery and ongoing monitoring assistance for internal audit related matters.	<ul style="list-style-type: none"> Over 25 years of experience in internal audit and risk management National Leader, Enterprise Risk Management
Rob Broline, CPA Director Risk Advisory Services	<p>Rob will work with the team and serve as the project lead to ensure that the construction related WA's appropriately staffed and delivered in a timely, quality manner.</p> <p>This will include assisting the team in the development of the fraud risk assessment plan, execution, delivery and ongoing monitoring assistance for construction project related matters.</p>	<ul style="list-style-type: none"> The Eastern leader in McGladrey's construction risk advisory services. Over 14 years of experience. Has performed numerous construction contract compliance audits Currently performing multiple comparable construction engagements including several that involved fraudulent charges
Mary Kreidell, CPA Director Financial Advisory Services	Mary will work with the team and serve as the project lead to oversee and direct the development and implementation of the fraud assessments and investigations related WA's and, where applicable, ensure they are appropriately staffed and delivered in a timely, quality manner.	<ul style="list-style-type: none"> 25 years of experience in forensic and fraud areas Certified Fraud Examiners Certified in Financial Forensics
Andy Ellsweig, CPA Director Technology Risk Advisory Services	<p>Andy will ensure that the technology related WA's are appropriately staffed and delivered in a quality, timely manner.</p> <p>This will include assisting the team in the development of the fraud risk assessment plan, execution delivery and ongoing monitoring assistance for IT related matters.</p>	<ul style="list-style-type: none"> Certified in Governance of Enterprise IT Over 25 years experience in IT related services

Team Member	Role and Value to NJ Transit	Qualifications
Prasad Tare, CPA Manager Risk Advisory Services	Prasad will work with the team and serve as the engagement manager responsible for assisting internal audit and monitoring related WA's	<ul style="list-style-type: none"> • 15 years of audit and accounting experience in the construction industry in assurance and risk advisory services
Andrew Obuchowski, Jr <i>Director, Security & Privacy Consulting</i>	Experienced in data breach investigations, cyber security, digital forensic analysis and intellectual property theft.	<ul style="list-style-type: none"> • 18 years experience • 12 years of law enforcement investigation knowledge
John Croy, CPA <i>Director National Lead, Construction Risk Advisory services Technical Resource</i>	John has extensive construction audit and forensic audit related experience. As needed, he will assist in identifying the key fraud risk and controls for specific construction projects to ensure our approach is sound and all appropriate risk factors have been identified.	<ul style="list-style-type: none"> • 30 years experience, which includes construction, engineering, forensic and manufacturing accounting, and auditing for commercial and governmental projects in North America and several foreign countries. • Certified Fraud Examiner • Certified Internal Auditor

Section 7, Qualifications of McGladrey and Related Experience

McGladrey LLP Profile

McGladrey's original concept of service, dating back to its founding in 1926, is predicated upon personal attention to the needs of clients and has remained unchanged throughout the decades. McGladrey is a traditional partner-owned CPA firm focused on building relationships, excellence and integrity to provide our clients with seamless access to world-class resources to drive their success.

McGladrey LLP is the fifth largest U.S. provider of assurance, tax and consulting services, with nearly 6,500 professional and associates in more than 70 offices nationwide. McGladrey is a licensed CPA firm and a member of RSM International, the seventh largest global network, according to The 2013 Accounting Today's Top 100 firms.

The size of our organization provides a broad base of staff experience, which allows us to assign staff with the expertise required to perform a particular engagement. Our depth and breadth of resources, clients and professionals means that we have experience with almost every situation you will face. We are committed to ensuring our resources are available to serve you. Due to the use of electronic workpapers and other technology, the cost of accessing these nationwide resources many times does not impact your engagement pricing (as it relates to travel).

Local Focus

Locally, we have been serving clients since the early 1900's. We have 8 offices in our Northeast region, which include New York, New Jersey and Pennsylvania, Massachusetts, Connecticut, making us one of the largest providers of audit, accounting and consulting providers in the area. Combined, our offices consist of approximately 1,500 personnel across all disciplines, of which 131 are partners. The resources of each respective office are available to meet the needs of any client served by another office within the practice group.

Partnering with a Minority-Owned Enterprise

We are pleased to support NJ Transit's Minority, Female, Disabled Person procurement program goals. McGladrey intends to utilize two MBE subcontractors for 10% or more of the contract value of the work that is awarded.

We have identified **Meridian Consulting and HGM Consulting** as MBE partner firms. Their actual participation will depend upon the scope and timing of the Work Authorizations (WA). Both firms have agreed to work with McGladrey on this project.

Membership in professional organizations

Each person on the proposed engagement team who is a Certified Public Accountant is a member of the American Institute of Certified Public Accountants. McGladrey was a charter member of the AICPA's Government Audit Quality Center and has firm members on the Auditing Standards Board and its committees. We will have ready access to this expertise as required.

We are active members of the Government Finance Officers Association (GFOA), including local state chapters of the GFOA, the AICPA and other professional associations, as well as attend and speak at conferences of these organizations in order to meet the CPE requirements of the GAO Yellow Book.

Government Clients

In addition to the references we have provided for you, McGladrey has significant experience serving governmental entities across the country. A representative list of the government entities that we currently serve or have served throughout the country includes:

- Brevard County, FL
- Broward County, FL
- Carteret County, NC
- Cedar Rapids School District, IA
- Chicago Public Schools, IL
- City of Aberdeen, MD
- City of Boca Raton, FL
- City of Boulder, CO
- City of Cape Coral, FL
- City of Columbia, MO
- City of Durham, NC
- City of East Peoria, IL
- City of Excelsior Springs, MO
- City of Florida City, FL
- City of Fort Collins, CO
- City of Fort Lauderdale, FL
- City of Frederick, MD
- City of Gaithersburg, MD
- City of Greenbelt, MD
- City of Hartford, CT
- City of Longmont, CO
- City of Maryville, MO
- City of Miami Springs, FL
- City of Miami, FL
- City of Moline, IL
- City of Muscatine, IA
- City of New Haven, CT
- City of North Bay Village, FL
- City of North Kansas City, MO
- City of North Miami Beach, FL
- City of North Miami, FL
- City of Overland Park, KS
- City of Pembroke Pines, FL
- City of Peoria, IL
- City of Riverside, MO
- City of Roeland Park, KS
- City of Springfield, IL
- City of Sunrise, FL
- City of Tulsa, OK
- City of Westminster, MD
- Colorado River Conservation District, CO
- Colorado Springs School District No. 11, CO
- Craven County, NC
- Duval County/City of Jacksonville, FL
- Hennepin County, MN
- Jo Daviess County, IL
- Kansas City Area Transportation Authority, MO
- Kansas Municipal Energy Agency, KS
- Kansas Municipal Gas Agency, KS
- Lee County, FL
- Mandaree Public School District No. 36, ND
- Martin County, FL
- McLean County, IL
- Miami-Dade Clerk of Courts, FL
- Miami-Dade County Aviation Department, FL
- Miami-Dade County Public Schools, FL
- Miami-Dade County Solid Waste Department,
- Miami-Dade County Water & Sewer Department, FL
- Miami-Dade County, FL
- Moline School District, IL
- Montgomery County Revenue Authority, MD
- New Hanover County, NC
- Northern Virginia Community College, VA
- Orange County, NC
- Overland Park Convention Center, KS
- Overland Park Development Corp, KS
- Palm Beach County, FL
- Platte County Regional Sewer District, MO
- Prince William County, VA
- St. Mary's County Public Schools, MD
- Town of Chesapeake Beach, MD

Client Testimonials

In order to demonstrate the breadth of our experience and ability to successfully perform the construction audit services required by NJ TRANSIT, we present the following client testimonials as examples of projects successfully performed for different industries in recent years.

University of Central Florida

Lee Kernek, Associate Vice President, Facilities & Safety
(Real Cost Savings \$378,000) – May 28, 2013



"We asked McGladrey to look outside the box when completing their construction audit and we got great results from them in potential and real cost savings. There were some lessons learned, too, in understanding change orders and fees." "The biggest potential for us through our work with McGladrey was cost avoidance. We developed best practices based on their findings, which then helped us to develop improved contractual language. In addition, we requested that McGladrey look at should costs, that is, what should something cost."

"As a result of McGladrey's work with UCF, the university saw a savings and cost avoidance of 3 to 5 percent on major construction projects, which, for a \$20 million project, could mean as much as \$1 million in overall savings to the University."

"Through all our efforts we've always wanted to do the right things in terms of growth and advancement of the university as a whole and we also wanted to do those things in the right way," she concluded. "Getting the best value for UCF is part of that, and McGladrey helped us with that effort."

Kaiser Permanente

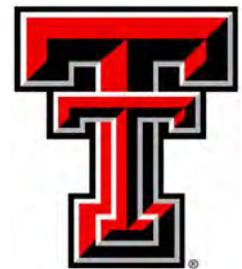
Kay Thompson, Interim Risk Manager, ROC
NFS Risk Management & Compliance



"McGladrey has performed numerous construction audits for us here at Kaiser – National Facilities Services. I can count on McGladrey to be responsive to our needs, honest, thorough and work successfully through challenges that sometimes get the better of us. McGladrey has developed a familiarity with our business, how our contracts are structured and how we partner with general contractors. McGladrey's findings have been important to us both in negotiating and contracting with our general contractors, as well as for our internal process improvement."

Texas Tech

Kimberly Turner, Chief Audit Executive (CAE) (\$29M project; immediate cost savings = \$325,000)



"The immediate savings from the construction audit are great, but opportunities for improvement that McGladrey helped us to identify will help us to save money and control our risks on every construction project. That's the type of real improvement we are aiming for." "We have been consistently impressed with the McGladrey Team both with their capabilities and their approach with us and our construction partners. This is a relationship we can build on."

Section 8, Quality Assurance Program (QAP)

Our focus as a firm is to deliver high-quality, responsive service to every client. Our delivery model is built to reinforce this commitment. Specifically, while conducting our internal audit support services, every phase of the engagement is performed in a manner that drives quality — from planning, to execution of fieldwork, to reporting. The diagram below illustrates the approach we will take to weave quality assurance throughout our engagement with the NJ TRANSIT.

All draft reports are reviewed by the engagement partner and more than likely one or more technical resources for context, wording and sensitivity to the public environment in which the NJ TRANSIT operates. Each draft report will be presented to the auditee, and then to NJ TRANSIT management, prior to finalization, in order to solicit feedback on the format, wording, feasibility of recommended actions and timing of planned actionable responses.

While we take our independence and objectivity very seriously, we realize that certain buzz words and phrases can take on differing meaning when not viewed within the context of an entire report. As such, we spend an ample amount of time working with management to ensure that the reports have been thoroughly vetted before issuance into the public record.

The chart below provides an overview of our approach to Quality Control:



We believe in and uphold professional and personal integrity. Our partners and employees are expected to practice to the highest standards of professional performance and behavior. We establish policies and procedures designed to provide reasonable assurance that personnel comply with independence, integrity, objectivity, and other relevant ethical requirements. These requirements include government regulations, interpretations and rules of the SEC, Public Company Accounting Oversight Board, U.S. Government Accountability Office, American Institute of Certified Public Accountants (AICPA), Department of Labor and other federal departments and agencies, state CPA societies, state boards of accountancy and other applicable regulators.

Our System of Quality Control

McGladrey LLP (McGladrey) has demanded audit excellence for more than 85 years. The framework that supports our professionals' abilities to perform high-quality audits is our system of quality control over our assurance practice. Our quality control system is structured to provide reasonable assurance that our personnel comply with applicable professional standards and applicable regulatory and legal requirements, and that our firm issues reports that are appropriate in the circumstances.

Our system of quality control includes policies and procedures that address each of the following elements:

- Leadership responsibilities for quality within the firm (the “tone at the top”)
- Relevant ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Human resources
- Engagement performance
- Monitoring

Leadership responsibilities for quality within the firm

Our firm provides leadership in achieving high-quality professional performance within the framework of individual accountability. The firm is managed by a board of directors, who are elected by the partners. Our leadership promotes a quality-oriented internal culture based on the recognition that quality is essential to meeting our professional responsibilities and achieving our business objectives. We set a tone at the top that emphasizes quality as a critical component of our business strategy.

Our firm's Enterprise Leadership Team assumes ultimate responsibility for the firm's system of quality control. The Enterprise Leadership team consists of the firm's Managing Partner, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, General Counsel, and the National Line of Business Leaders for Assurance, Consulting, and Tax. The Chief Risk Officer oversees the National Office of Risk Management, which designs, implements, and monitors the firm's quality control system. The National Assurance Leader oversees our assurance practice, including the National Professional Standards Group, which establishes the firm's assurance policies and guidance. Members of these groups are chosen for their experience, their ability to identify issues, and their aptitude for developing responsive policies and communications. Many of the firm's partners actively participate in professional standard-setting organizations and governance committees, which contributes to our ability to provide current guidance to our personnel on developments affecting the profession. Clear, consistent, and frequent messages from our Enterprise Leadership Team encourage a culture that expects quality work. These messages are communicated in our manuals, continuing professional education sessions, our bi-weekly internal newsletter, and through our consultation process. Expectations about quality work are also communicated at the local-office level during partner and staff performance evaluations.

Relevant ethical requirements

We believe in and uphold professional and personal integrity. Our partners and employees are expected to practice to the highest standards of professional performance and behavior. We establish policies and procedures designed to provide reasonable assurance that personnel comply with independence, integrity, objectivity, and other relevant ethical requirements. These requirements include government regulations, interpretations and rules of the SEC, Public Company Accounting Oversight Board, U.S. Government Accountability Office, American Institute of Certified Public Accountants (AICPA), Department of Labor and other federal departments and agencies, state CPA societies, state boards of accountancy and other applicable regulators.

Our independence and relationships policies are considered and approved by the board of directors. The Chief Risk Officer and the National Director of Independence and Regulatory Compliance ascertain that policy statements reflect the latest significant pronouncements of all applicable regulatory authorities. Our independence and relationship policies are made available to all employees on the firm's intranet.

A complete, current listing of clients with publicly traded securities is available to all employees on the firm's intranet. Before purchasing a security, securing a loan or entering into another financial relationship, employees must review this listing. This listing also is provided to the brokerage company that administers the firm's retirement plan, which "blocks" all purchase of public client securities so that these securities cannot be acquired by participants in the firm's Self-Directed Brokerage Account option. In addition, the firm has a web-based investment tracking application that helps our partners comply with the independence standards by receiving electronic feeds of security holdings from certain brokerage houses and comparing those to our prohibited security listing.

Professional employees are advised of our policies during the orientation process and are reminded of our policies annually as a part of monitoring compliance with such policies. Our firm emphasizes independence and other ethical considerations in selected training programs, with required training near the time of initial employment. The firm requires periodic independence and ethics training for all professional employees.

All professional personnel represent in writing to the National Director of Independence and Regulatory Compliance their compliance with policies, including any exceptions, near the time of initial employment and on an annual basis thereafter. Exceptions are approved by the National Director of Independence and Regulatory Compliance, with certain matters subject to the approval of our board of directors. The firm audits a sample of these annual independence representations by reference to income tax, bank account, and brokerage account records.

We maintain a confidential ethics hotline to help partners and employees report concerns about possible unethical conduct. The use of the hotline is encouraged, and callers' reports are handled confidentially.

Acceptance and continuance of client relationships and specific engagements

We establish policies and procedures for the acceptance and continuance of client relationships and specific engagements designed to provide reasonable assurance that we will undertake or continue relationships and engagements only where we (a) have considered the integrity of the client and the risks associated with providing professional services in the particular circumstances, (b) are competent to perform the engagement and have the capabilities and resources to do so, (c) can comply with the applicable legal and ethical requirements, and (d) can reach an understanding with the client regarding the nature, scope, and limitations of the services to be performed.

Our client acceptance and continuation policies require the prospective engagement partner to evaluate the prospective client prior to acceptance through our formal risk management process and system, which includes an objective assessment of the following factors, among many others:

- The integrity and competence of top management and majority owners
- The complexity of the client and its control environment
- The client's financial condition
- Firm independence requirements to determine compliance with respect to the prospective client
- The availability of qualified professional staff and other functional and industry specialists

As a matter of policy, we only undertake engagements we believe we are competent to perform. Acceptance of all prospective clients must be approved by the regional assurance leader or his or her designee. Acceptance of prospective clients who are public companies requires the concurrence of the National Director of SEC Services. In addition, acceptance of public company and financial institution prospects that meet specified risk criteria requires the approval of a client acceptance and reevaluation committee.

The engagement partner must initiate a re-evaluation of each assigned audit client prior to each year's engagement. Factors to be considered include, but are not limited to, a significant change in top management, a significant change in the nature, size or structure of the client's business, and certain prior-year audit findings.

The engagement partner should conclude, based upon the re-evaluation, whether the relationship should be continued or discontinued. The engagement partner must obtain concurrence with client continuance from the regional assurance leader or his or her designee, and the National Office of Risk Management when certain engagement risk criteria or client continuance factors are present.

Arrangements for each engagement must be confirmed with the client in writing prior to the commencement of any significant fieldwork.

Human resources

We establish policies and procedures designed to provide reasonable assurance that we have sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform our engagements in accordance with professional standards and regulatory and legal requirements and to enable our firm to issue reports that are appropriate in the circumstances.

Recruitment and hiring

Our firm proactively seeks to employ individuals who possess high levels of intelligence, integrity, honesty, motivation, and aptitude for the profession. We establish minimum qualifications and guidelines for evaluating potential hires and ensuring that personnel who are hired possess the appropriate characteristics to enable them to perform competently.

Determining capabilities and competencies

Capabilities and competence are developed through professional education, continuing professional development, work experience, and mentoring by more experienced personnel. Our firm has established qualification and performance expectations for the various levels of responsibility within the firm.

Assigning personnel to engagements

Our firm assigns an individual to a specific engagement after considering the professional competence and industry experience of the individual, together with the degree of technical training and proficiency required in the circumstances. Our policies provide guidance on the responsibilities to be discharged by various members of the engagement team. Such policies also describe specific criteria to be met by individuals assigned to certain specialized industries.

Professional development

Our firm has an annual learning and professional development (LPD) planning process that includes an assessment of participant needs as compared to the existing curriculum to identify new program needs and necessary revisions to existing programs and to budget adequate resources to achieve training objectives. The professional development policies, curriculum (required and elective) and schedule are determined by the National Professional Standards Group based upon strategic direction provided by the Assurance Learning Advisory Council, and communicated to our professionals through our on-line LPD catalog.

Engagement performance

We establish policies and procedures designed to provide reasonable assurance that engagements are performed in accordance with applicable professional standards and regulatory and legal requirements and that we issue reports that are appropriate in the circumstances. We implement these policies by developing, maintaining, and providing personnel with our electronic manuals, software tools, and subject-matter guidance materials, which address:

- Our audit methodology
- Engagement supervision, including the timing and extent of the various levels of engagement review
- Appropriate documentation of the work performed
- Identifying matters for consultation or consideration by more experienced professionals

Our National Professional Standards Group has developed and regularly updates our audit methodology and related guidance and tools. Our audit approach is carefully designed to comply with professional standards, providing a high level of audit quality and a reasonably low level of business risk. The approach also provides the opportunity to achieve a high degree of engagement efficiency. The audit approach is founded on a thorough understanding of the client's business. Many of our efforts to understand the client's business also focus on obtaining an understanding of internal control that is sufficient to assess the risks of material misstatement and then developing an audit plan that is responsive to those risks.

The engagement team is required to plan the audit work so that an effective audit is performed, considering fraud and other risks of material misstatement and how they may affect the procedures to be performed. The nature, timing and extent of procedures performed are consistent with risk assessments made and the approach described in the planning documentation. The appropriateness of planned procedures are reconsidered when significant changes in risk factors occur or are identified between the planning phase of the engagement and the execution of substantive procedures. Various levels of engagement review, including by the in-charge, manager, and partner, are used to document the supervision and review of the engagement performed by engagement supervisory personnel.

Our policies require personnel to observe at all times the confidentiality of client information, including the information contained in engagement documentation, unless specific client authority has been given to disclose information, or there is a legal or professional duty to do so. Our controls for engagement documentation include controls to clearly determine when and by whom engagement documentation was created, changed or reviewed. The use of passwords and data encryption is required to restrict access to electronic engagement documentation.

Monitoring

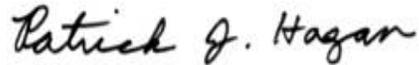
We establish monitoring policies and procedures designed to provide reasonable assurance that the policies and procedures relating to our system of quality control are relevant, adequate, operating effectively, and

complied with in practice. In assuring that our quality control policies and procedures remain relevant and adequate, we consider changes in professional standards or other regulatory requirements applicable to our practice. We also assess the results of internal and external quality control reviews to discern where firm-wide action is needed or should be considered relative to professional education, guidance, oversight or policies.

We carry out a rigorous internal quality control review program, which is referred to as an internal inspection program. The objectives of this program are accomplished through monitoring and inspections, which include a study and evaluation of the local quality assurance and practice management systems, interviews with personnel, and inspection of a sample of assurance engagement files, personnel files and other relevant documented evidence of performance. The monitoring and inspections are performed so as to annually cover one-third of all partners and directors who have audit sign-off authority. Inspection teams are comprised of partners, directors and managers that are selected from offices throughout the firm. The National Director of Practice Quality is responsible for the administration of the internal inspection program.

Section 9, Key Personnel Certification

On behalf of McGladrey, the personnel offered in this proposal are or will be, bona fide employees of the firm and sub-contractors and will be made available for the duration of the assigned projects. The appropriate officers and personnel of each firm will be available and ready to negotiate during the negotiating period.



Patrick J. Hagan
National State and Local Government Leader
312.634.3981
patrick.hagan@mcgladrey.com



Robert G. Rooney
Director, Project Manager
908.208.9787
robert.rooney@mcgladrey.com

Section 10, Conflicts

We are not aware of any conflicts of interest that McGladrey or its subcontractors may have with NJTRANSIT.

Our independence and relationships policies are considered and approved by the board of directors. The Chief Risk Officer and the National Director of Independence and Regulatory Compliance ascertain that policy statements reflect the latest significant pronouncements of all applicable regulatory authorities. Our independence and relationship policies are made available to all employees on the firm's intranet.

A complete, current listing of clients with publicly traded securities is available to all employees on the firm's intranet. Before purchasing a security, securing a loan or entering into another financial relationship, employees must review this listing. This listing also is provided to the brokerage company that administers the firm's retirement plan, which "blocks" all purchase of public client securities so that these securities cannot be acquired by participants in the firm's Self-Directed Brokerage Account option. In addition, the firm has a web-based investment tracking application that helps our partners comply with the independence standards by receiving electronic feeds of security holdings from certain brokerage houses and comparing those to our prohibited security listing.

Professional employees are advised of our policies during the orientation process and are reminded of our policies annually as a part of monitoring compliance with such policies. Our firm emphasizes independence and other ethical considerations in selected training programs, with required training near the time of initial employment. The firm requires periodic independence and ethics training for all professional employees.

All professional personnel represent in writing to the National Director of Independence and Regulatory Compliance their compliance with policies, including any exceptions, near the time of initial employment and on an annual basis thereafter. Exceptions are approved by the National Director of Independence and Regulatory Compliance, with certain matters subject to the approval of our board of directors. The firm audits a sample of these annual independence representations by reference to income tax, bank account, and brokerage account records.

We maintain a confidential ethics hotline to help partners and employees report concerns about possible unethical conduct. The use of the hotline is encouraged, and callers' reports are handled confidentially.

Section 11, Key Contacts

Patrick J. Hagan
National State and Local Government Leader
312.634.3981
patrick.hagan@mcgladrey.com

Robert G. Rooney
Director, Project Manager
908.208.9787
robert.rooney@mcgladrey.com

Section 12, References

Client Reference #1

A	Project Title	Construction Audits; Contract Compliance; Contract Improvement
A	Primary Consultant	McGladrey LLP
A	Project Manager	Rob Broline
A	Date Started	July 2011
A	Completion Date	Ongoing
A	Total Construction Cost	UCF's construction program for multiple projects from \$1M to \$125M, including major construction projects.
A	Client	University of Central Florida
A	Contact Information	Priscilla Lee Kernek Associate Vice President, Facilities & Safety 4000 Central Florida Blvd. Orlando, Florida 32816 [REDACTED]
B	Summary of project scope	<ul style="list-style-type: none"> McGladrey performed multiple construction audits for both minor and major projects that included the following contract delivery methods: Construction Manager at risk (cost-plus with a GMP), Design / Build (cost plus with GMP), Firm Fixed Price, Time and Materials and Unit Pricing. McGladrey assisted UCF in its analysis and negotiation of multiple contractor proposals, including cost plus, with GMP and lump sum proposals. Utilizing our extensive experience in the industry, we negotiated more favorable rates and not to exceed caps related to labor burden and overhead and profit. McGladrey helped to develop and/or revise numerous contracts for the following types of contracts: architecture engineering, professional services and construction contracts (Construction Manager (CM) at Risk, Design Build, Lump Sum, Time and Materials, Continuing Services, etc.) for both major and minor projects. McGladrey participated in the negotiation process helping to facilitate cost savings, cost avoidance and cost recovery, and worked with UCF to modify its Construction Management Policies & Procedures Vendor Handbook. <p>The above activities resulted in significant cost savings, cost avoidance and cost recovery (\$380,000 - actual recovered cost / savings realized by Owner).The key individuals who performed these projects included Rob Broline and David Luker.</p>
C	Budget / Fees	Charged quoted fees / cost; no cost increases.

Client Reference #2

A	Project Title	Forensic Audit Services
A	Primary Consultant	McGladrey LLP
A	Project Manager	Rob Broline
A	Date Started	June 2011
A	Completion Date	February 2012 no delays
A	Total Construction Cost	\$150 million for ten different construction projects.
A	Client	Osceola County School District
A	Contact Information	Clyde A Wells, MBA Chief Facilities Officer School District of Osceola <div style="background-color: gray; width: 200px; height: 15px; margin-top: 5px;"></div>
B	Summary of project scope	McGladrey provided forensic auditing and consulting construction audit services for 10 different construction projects on behalf of the District's Facilities Department. We conducted numerous interviews and reviewed emails and other correspondence related to fraud allegations. We performed construction audits, pay application reviews as well as provided guidance on industry standards and best practices for the development of their construction contracts resulting in significant cost avoidance, cost savings and cost recovery. These reviews resulted in 40 observations and recommendations related to process improvements and \$1.4M in identified potential overcharges and cost avoidances. The key individuals who performed these 10 projects included Rob Broline and David Luker.
C	Budget / Fees	Charged quoted fees / cost; no cost increases.

Client Reference #3

A	Project Title	Davis-Bacon Act (DBA) Compliance – Initial Wage Determination
A	Primary Consultant	McGladrey LLP
A	Project Manager	Rob Broline
A	Date Started	September 2010
A	Completion Date	March 2013 – no delays.
A	Total Construction Cost	ARRA grant for 250 different construction projects – ranging from \$10,000 to \$300,000 each.
A	Client	California Energy Commission
A	Contact Information	Michelle Tessier, Associate Energy Specialist 1516 9 th Street, MS-23 Sacramento, CA 95814 [REDACTED]
B	Summary of project scope	<p>McGladrey provided Federal Davis Bacon Act consulting services in support of American Recovery and Reinvestment Act Grant funding.</p> <ul style="list-style-type: none"> • Our team worked directly with the associate energy specialist on a daily basis related to approximately 250 distinct construction projects. • The engagement included collecting and analyzing the data from the respective sub recipients and testing compliance with prevailing wage rates pursuant to Department of Labor (DOL) regulations, Davis Bacon Act (DBA), and California statutes where applicable. • Additionally, we answered questions based on our expertise and research of DOL regulations, including DBA, and provided training to both Energy Commission staff and recipients of grant funding. <p>McGladrey developed the steps for an entirely new process, providing timely and accurate research, and confirming that federal regulations were followed which included identifying and remediating DBA non-compliance avoiding potential penalties and loss of prevailing wages to respective laborers. The key individuals who performed these projects included Pat Hagan and Rob Broline.</p>
C	Budget / Fees	Charged quoted fees / cost; no cost increases.

Appendix A
Engagement Team Biographies



Patrick J. Hagan

National Managing Partner,
State and Local Government and Higher Education
Chicago, IL
patrick.hagan@mcgladrey.com



Summary of Experience

Pat Hagan is a Partner in McGladrey's public sector industry group. He leads McGladrey's national state and local government practice, and is responsible for client relationships, service delivery and growth strategy. His team provides Technology, Financial Advisory and Risk consulting service, as well as Financial, Performance and Single Audits, to states, cities, counties, higher education entities and special purpose authorities.

Prior to joining McGladrey, Pat spent 29 years at Deloitte & Touche LLP, where he served as National Partner, Audit and Enterprise Risk Services, State and Local Government.

Governmental Accounting and Auditing Experience

Clients for which Pat has served as Audit Partner and issued financial and Single Audit reports include:

Government

- Cook County and Health Systems
- City of Chicago and airports
- City Colleges of Chicago
- Chicago Board of Education
- Chicago Transit Authority
- IL Municipal Retirement Fund
- IL Sports Facilities Authority
- METRA Commuter Railroad Corp
- Metropolitan Pier and Exposition Authority
- Public Building Commission of Chicago
- Regional Transportation Authority

Education and Not-for-Profit

- Archdiocese of Chicago, including Catholic Charities and School System
- Field Museum of Natural History
- Goodman Theater
- Government Finance Officers Association
- National Holocaust Memorial Museum
- Jane Addams Hull House
- Loyola University and Medical Center
- Ravinia Festival Association
- YMCA of the USA

Select client projects for which Pat has served as **Project Partner or Lead Consultant** include:

- **University of Illinois, Technology Transfer Office** – Reviewed backlog of 730 technologies and inventions to improve return on sponsored research expenditures and increase innovation-to-commercialization rate.
- **Loyola University, President's Office** – Performed an operations improvement study, including ratio analysis and comparison to peer universities, to prepare budget and financial recovery plan.
- **Fisk University, President's Office** – Provided litigation support to counsel in dispute related to deaccessioning of a donated art collection, including an expert statement on accounting principles.
- **City of Chicago, Budget Office** – performed an organizational redesign and led departmental consolidation effort. Developed organizational structure, operating budget and roll-out plan. Assessed overlapping functions and positions. Resulted in annualized \$43 million savings.
- **Cook County, Health and Hospitals System** – assessed operating costs and structure for 25 community based sites and three acute care hospitals, including FTEs per occupied bed, length of stay, skill mix, capital costs and non-salary expenses.

- **O'Hare International Airport** – reviewed \$4.2 billion capital program, and assessed construction management effectiveness, airport owner's representative contract compliance, and key areas of cost, schedule, and safety.
- **State of Illinois, Governor's Office** – led Risk Consulting workstream for Shared Services project, which redesigned state-wide business processes and internal controls, to facilitate ERP technology implementation. Created service centers for payroll and accounts payable processing, with demonstrated business case savings.
- **State of Illinois, Budget Office** – advised a Blue Ribbon Commission on Pension Benefits, modeled financial impact on five state plans for changes in pension age and service requirements, and employee contributions.
- **State of Illinois, Dept. of Healthcare and Family Services** – provided accounting advisory services related to reporting requirements under GASB 33 for a Health Assessment Tax, levied on local health care providers, under federal CMS Medicaid program guidelines.
- **State of Illinois, Office of Internal Audit** – led first state-wide risk assessment, prioritized risks across 52 departments, utilizing internal control software, and assessed culture and organizational ability to change.
- **State of Illinois, Department of Transportation** – issued close out audits for 425 Preliminary Engineering and Construction Engineering projects. Tested labor costs, provisional indirect overhead rates, subcontractor costs, and profits, for 65 construction, architectural and engineering firms. Recovered 3% of audited costs.
- **Philadelphia Public School District** – led a finance transformation process, which assessed policies and reengineered financial closing processes, resulting in reduced manual efforts and external auditor findings.
- **Santa Clara County (CA), Valley Transportation Authority** – served as Auditor General, developed initial risk assessment for light rail and bus operations, and ranked capital planning, transit operations and performance, contractual and grant compliance, municipal finance and technology risks. Presented results in public meetings.

Professional Certification

- Certified Public Accountant, licensed in Illinois and Arizona, license pending in Michigan.

Professional and Civic Affiliations

- Civic Federation (government research group), Board and Audit Committee Member
- City Club of Chicago (public policy group), Member
- Chicago Sister Cities International Program, Galway Committee, Board Member
- Illinois Governor Quinn's "Taxpayer Action Board", Human Services Subcommittee Leader
- Chicago Mayor Daley's "Committee for Better Government", Advisory Consultant

Education

BBA, accountancy, University of Notre Dame



Robert G. Rooney

Director, Not-for-Profit Government Services Group
McGladrey LLP New York, NY
robert.rooney@mcgladrey.com
212.372.1033



Summary of Experience

Robert Rooney is a director with more than 35 years of experience leading engagement teams in serving significant governmental, educational and not for profit entities. He is experienced in the oversight of systems implementations and strengthening the internal controls for not-for-profit and public sector entities. Prior to joining the firm, Bob was a Director with Deloitte & Touche LLP, where his responsibilities included the oversight of the New Jersey Practice Human Resources function and the participation in various internal and external training programs. Bob was a designated specialist in Federal Compliance Regulations and Government Auditing Standards.

Clients served include:

- County of Albany, NY
- County of Rensselaer, NY
- County of Suffolk, NY
- County of Nassau, NY
- Morris County, NJ
- City of New York, Department of Education
- City of New York Retirement Plans
- MTA Triborough Bridge and Tunnel Authority
- MTA Long Island Railroad
- MTA Long Island Bus
- Nassau Community College
- MTA Staten Island Rapid Transit Operating Authority
- City of Trenton, NJ
- City of East Orange, NJ
- Trenton Board of Education
- Orange Board of Education
- Centenary College

Professional Affiliations and Credentials

- Certified Public Account in the states of New York, New Jersey and Connecticut
- American Institute of Certified Public Accountants
- Association of Government Accountants
- New Jersey Society of Certified Public Accountants
- New York State Society of Certified Public Accountants
- Association of School Business Officials (Former Panel Review Member for Certificate of Excellence in Financial Reporting Program)
- Registered Municipal Accountant (New Jersey)
- Public School Accountant (New Jersey)
- Government Finance Officers Association

Education

Bachelor of Science, accounting, Fairleigh Dickinson University



Jennifer M. Katz

Manager, Not-for-Profit Government Services Group
McGladrey LLP
New York, NY jen.katz@mcgladrey.com
Jen.katz@mcglarey.com
212.372.1617



Summary of Experience

Jennifer Katz is a manager with more than 9 years of experience serving significant governmental and not for profit entities. She is well-versed in the requirements of OMB Circular A-133, Governmental Accounting Standards Board pronouncements, and Government Auditing Standards.

Prior to joining McGladrey LLP, she was a senior manager at Deloitte & Touche LLP where she served in a management development position for the public sector and not for profit groups. This role included researching and evaluating the impact of new accounting pronouncements and providing technical training.

Clients served include:

- City of New York Retirement Plans
- New York City Water and Sewer System
- New York City Other Postemployment Benefits Plan
- The Port Authority of New York and New Jersey
- Port Authority Insurance Captive Entity
- The Hearst Foundations
- The Paley Center for Media
- MTA Long Island Railroad
- MTA Staten Island Rapid Transit Operating Authority
- MTA New York City Transit Authority
- MTA Pension Plans

Professional Affiliations and Credentials

- Certified Public Accountant in the state of New York
- American Institute of Certified Public Accountants
- New York State Society of Certified Public Accountants

Education

- Bachelor of Accountancy, George Washington University



Rob Broline

McGladrey LLP
Director, Construction Risk Advisory Services
McGladrey LLP
rob.broline@mcgladrey.com



Summary of Experience

Rob leads McGladrey's Construction Risk Advisory Services in the east region. He has over fourteen years of experience in project management, risks and controls, business process analysis, contract compliance services, construction risk management, and forensic investigations. Rob worked for a Big 4 Accounting Firm (KPMG) in the past. Rob specializes in construction fraud risk management and has performed numerous contract compliance reviews for multiple client engagements. Rob has helped clients:

- Assess whether contractors and vendors are invoicing according to the contract terms and conditions;
- Determine whether the appropriate processes and internal control structures are in place;
- Benchmark financial processes and controls with industry standards and best practices; and,
- Facilitate compliance with Davis-Bacon Act prevailing wage requirements.

Clients served include:

- Brevard County Government
- Brevard County School District
- Broward College
- Broward County School District
- California Energy Commission
- City of Orlando
- Florida Department of Economic Development
- Florida Department of Transportation
- Lake County Schools
- Osceola County School District
- Palm Beach State College
- Prince William County, VA
- Swire Properties, Inc.
- University of Central Florida

Professional Affiliations and Credentials

- American Institute of Certified Public Accountants
- Certified Public Accountant in Florida
- Certified Public Accountant in Virginia
- Institute of Internal Auditors
- Florida Institute of Certified Public Accountants
- Virginia Society of Certified Public Accountants
- Speaker Florida Educational Facilities Planners Association
- Speaker Florida Government Finance Officers Association
- McGladrey Annual Public Sector Conference (multiple times) McGladrey Annual Public Sector Conference (multiple times) Government Finance Officers Association

Education

- Bachelor of Arts, Accounting, Cedarville University, Ohio

John M. Croy

McGladrey LLP
Director, Construction Risk Advisory Services
McGladrey LLP
john.croy@mcgladrey.com



Summary of Experience

John is National Leader of McGladrey's Construction Risk Advisory Services. He has over thirty-five years of experience in construction accounting, internal auditing and forensic investigations. Mr. Croy worked over twenty years for a major contractor primarily as Director Internal Audit. He has provided litigation support for several clients some of which have lead to the indictment of public officials. He has spoken at the national conferences for the Institute of Internal Auditors and the Association of Certified Fraud Examiners.

John has helped clients:

- Gaps in internal controls and establish controls to mitigate the associated risk; and
- Identify and document potential irregularities.

Clients served include:

- State of Arizona
- Maricopa County
- City of Phoenix
- City of San Jose
- City of Boise
- City of Meridian
- Sound Transit
- Valley Transit Authority
- City of Houston
- New York Yankees
- Texas Tech University System
- Trump Entertainment
- eBay
- University of California Berkeley

Professional Affiliations and Credentials

- American Institute of Certified Public Accountants
- Certified Public Accountant in Idaho
- Certified Fraud Examiner
- Institute of Internal Auditors
- Certified Internal Auditor
- Association of Certified Fraud Examiners
- National Association of Construction Auditors
- Certified Construction Auditor

Education

- Bachelor of Science, Accounting, University of Idaho
- Masters of Business Administration, University of Idaho

Mary J. Kreidell, CPA, CFE, CFF

Director, Financial Advisory Services
McGladrey LLP
New York, NY
mary.kreidell@mcgladrey.com
212.372.1291



Summary of Experience

Mary Kreidell is a Director in McGladrey's Litigation Consulting and Financial Investigations Practice. She has more than 25 years of experience in financial accounting, fraud investigations, forensic accounting, litigation consulting, auditing and public finance.

During her career, Mary has worked with organizations across a wide range of industries, such as construction, financial services, manufacturing, health care, energy, technology and professional services.

Recently, Mary led an investigation for an international not-for-profit agency to determine the validity of \$20 million in construction expenditures that were funded by a bond offering. Mary has experience investigating labor issues involving NY unions.

Professional Affiliations and Credentials

- Certified Public Accountant-
- Certified Fraud Examiner
- Certified in Financial Forensics

Education

- Bachelor of Science in Accounting, State University of New York at Albany

Notable Engagements

Fraud Investigations

- Led an investigation into the corruption of a major New York labor union. The investigation revealed the books and records of the union's benefit funds had been fraudulently altered by an insider to remove accounts receivable owed by certain construction companies, depriving the funds of several million dollars.
- Conducted an investigation on behalf of a title company involving mortgage fraud. The case involved unraveling a series of shell entities and resulted in identifying falsified appraisals and other fraudulent documentations the subjects used to perpetrate nearly \$100 million in mortgage fraud.

Mary J. Kreidell

Director, Financial Advisory Services

- Worked collaboratively with the FBI and U.S. Attorneys' Office to investigate the embezzlement of funds by the CFO of a not-for-profit hospital. The findings resulted in the criminal conviction of the CFO and the identification of nearly \$1 million in embezzled funds.

Financial Investigations

- Conducted a forensic accounting investigation for a major utilities pension fund, which involved analyzing the books and records of one of the alternative investments the funds made at the direction of a corrupt investment manager. The investigation revealed kickbacks to the investment advisor. Additionally, provided financial due diligence to determine if the investment was viable.
- Assisted in an investigation of the financial reporting of the pension funds of a large municipality. The investigation revealed inadequate financial disclosures regarding the pension funds' investments.
- Led an investigation for a multinational financial institution facing a Department of Justice investigation involving complex financial transactions marketed to high-net-worth individuals. Obtained, analyzed and tested documentary evidence and presented findings to the U.S. Attorney on behalf of the client, which resulted in no criminal charges being brought against the client.
- Assisted in a forensic accounting investigation involving the examination of the assets and liabilities of the largest bankruptcy debtor in U.S. history. Assisted bondholders' counsel in arguing against substantive consolidation of the debtors' estate resulting in the doubling of the clients' ultimate recovery.
- Conducted a forensic accounting investigation involving the misreporting of certain energy commodity trading information by a major multinational energy company. Information discovered during the investigation aided counsel in the settlement reached with the CFTC.
- Directed a team that assisted an Expert retained in a class action lawsuit to opine on the quality of due diligence performed by a group of underwriters on the IPO of a \$3.5 billion commodities and futures broker/dealer. Assessed the broker/dealers control environment and evaluated the underwriter credit approval process.

Damage

- Supported a major financial institution during a \$30 million purchase price dispute involving the sale of their stock clearing and execution subsidiary to another financial institution. Successfully substantiated and documented 97% of the disputed amount
- Assisted counsel with the calculation of damages related to breach of contract in a dispute between private equity stakeholders. The matter was settled outside of court, providing a favorable outcome for the client.
- Assisted counsel with the calculation of damages related to breach of contract in a dispute involving an electric co-generation company and a lender.

Mary J. Kreidell

Director, Financial Advisory Services

Bankruptcy

- Assisted counsel for the Creditors Committee in the largest health care bankruptcy to identify potential preference actions and analyzed and refuted defenses offered by vendors resulting in the successful recovery of assets for unsecured creditors of the debtor estate.
- Performed financial due diligence on a manufacturing subsidiary of a debtor to assist the Creditors Committee in determining if the subsidiary was viable.

Education

- Bachelor of Science, the State University of New York, Old Westbury



Prasad Tare

Manager, Risk Advisory Services
McGladrey LLP
New York, NY
Prasad.Tare@mcgladrey.com
212.372.1616



Summary of Experience

Prasad Tare brings nearly 15 years of accounting and financial experience to the team in a variety of industries and capacities. Prasad has served both public and private companies in a variety of industries. As an assurance and risk advisory professional, Prasad helps companies assess their financial reporting and operational risks, and provide recommendations to improve effectiveness of the internal control environment and also perform external audits to provide assurance on the integrity of the financial statements. Prasad has also managed audits of public companies, where he has assisted organizations in executing the internal controls requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

Industries

- Retail-Wholesale
- Technology
- Distribution
- Manufacturing
- Life Sciences/Biotech
- Media & Entertainment

Representative Experience and Professional Accomplishments

- Partnered with the CFOs and Audit Committees on multiple Sarbanes Oxley ('SOX') consulting engagements, which included large public companies, to comply with SOX 404 rules and effectively liaised with their external auditors (Big Four firms).
- Led multiple teams and interacted with key management personnel in planning and developing internal audit programs, performed risk assessments, summarized risk results, developed control cycle process narratives and control matrices, identified key financial and IT application controls, evaluated design effectiveness, developed test plans and evaluated operating effectiveness and control deficiencies.

- Led multiple audit teams with direct reporting to partners and overall project management responsibility, including preparing engagement letters & monitoring budgets, billings and realizations, scheduling and supervising team members and reviewing work papers.
- Researched, interpreted and assisted in the implementation of various FASB accounting pronouncements, including ASC topics 320-Investments, 350-Intangibles, 470-Debt, 605-Revenue recognition, 718- Equity based compensation, and 810 Consolidation.
- Developed a practice aid for the firm on 'Use of Work of Others in an Integrated Audit' and spearheaded its implementation on various public company audits. The practice aid was designed to comply with requirements of AS-5 issued by the PCAOB. Implementation of the standard resulted in efficiencies on audit engagements, improving cost recovery by 20%.

Representative Experience and Professional Accomplishments (Continued)

- Conducted enterprise wide risk assessment for a client with revenues over \$400M. Results of the risk assessment helped the client improve its focus and attention to critical focus areas, thus resulting in more efficient and effective activities related to audit matters, more cost-effective management and monitoring of risks.
- Implemented 'control rationalizations' in evaluating the nature of controls for SOX 404 testing.
- Designed training materials and participated in the firm's Professional Development Group training initiatives as an instructor on various accounting, auditing and internal controls topics.
- Successfully led, coordinated with and directed audit instructions for the international teams of affiliate firms on several multi-location external audits. This resulted in timely and effective completion of audits of the foreign subsidiaries.

Professional Associations, Affiliations and Credentials

- Certified Public Accountant, American Institute of Certified Public Accountants
- Chartered Accountant, Institute of Chartered Accountants of India
- Institute of Internal Auditors

Education

- Nagpur University, India – B.S. Accounting

Shawn Dahl

Director, Risk Advisory Services
National Leader, Enterprise Risk Management
McGladrey LLP
Atlanta, GA
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404.751.9127



Summary of Experience

Shawn Dahl is the director of consulting services in Atlanta, which is dedicated to assisting clients solve complex business problems, improve competitive practices and manage risks. Its solutions result in measurable and sustainable performance improvement. He is also the national leader for enterprise risk management for the firm, responsible for ongoing framework and methodology development and client support.

Some of Shawn's local client industry and services include:

- Public sector (housing) – system and process implementation, internal audit and fraud investigations
- Manufacturing / Distribution – internal and IT audit outsourcing
- Financial Services – internal audit, IT audit, financial process support, enterprise risk management implementation
- Hospitality – enterprise risk management support

Shawn brings more than 25 years of diverse experience to McGladrey through executive positions in internal audit and risk management. Prior to joining McGladrey, he was the Managing Director-Carolinas for Jefferson Wells for four years. Previously, his experience in Fortune and FTSE 100 Companies include the consumer goods, manufacturing, software, service and public sector industries.

Shawn has held executive positions in internal audit and risk management, and has been involved in building best practice audit functions within multiple companies, including Kellogg's, Whirlpool and Allied Domecq. He has extensive international experience, conducting and leading audit, risk management and special project initiatives across North America, Europe, Latin America and Asia.

Shawn has also been on the leading edge of the ERM and GRC practices during the past 10 years. In addition to founding Axena, a business governance software company, he has led numerous SOX initiatives from implementation through to testing, and has experience in designing and embedding ERM programs within international organizations.

Industry Specialization

- Consumer Products
- Financial Services
- Software
- Services
- Manufacturing
- Public Sector

Professional Credentials

- Certified Internal Auditor (CIA)
- Certification in Risk Management Assurance (CRMA)
- Certification in Controls Self Assessment (CCSA)

Education

- MBA, Thunderbird, Glendale, AZ
- BA in Economics, Gustavus Adolphus College, St. Peter, MN



Peter M. Brady

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212.372.1880



Summary of Experience

Peter M. Brady is a Principal in the New York office of McGladrey LLP. He is the leader of the firm's Risk Advisory Services Practice and Consulting Services leader for the North East Region. With over 23 years of experience in Consulting focused on governance, internal audit, internal controls and risk management, he oversees the practice's strategy, client development and team building.

Peter has advised senior executives in the United States, Europe and Asia in the financial services, energy, telecommunications, technology, entertainment, retail and consumer products and healthcare sectors.

Prior to joining McGladrey, Peter spent two decades including 11 as a partner, with Ernst & Young, holding leadership positions in New York, Cleveland and London. Peter has led engagements with household name organizations performing significant internal audit, risk management and controls improvement projects. His clients have included AIG, Sprint, Cable and Wireless, CRH PLC, MetLife, TIAA-CREF and MMC.

Significant recent engagements involved:

- Building an anti-fraud framework for an investment and wealth management organization with more than \$400 billion in assets under management.
- Leading internal audit, multi location and multi country outsource and co-source engagements with a large global organizations.
- Advising a Fortune 100 organization on fraud risks, policies and procedures and infrastructure to combat fraud.
- Leading a strategic quality assurance review of the Internal Audit Department of a Fortune 50 technology company and for a Fortune 150 Investment Bank
- Developing an innovative risk prediction model for a global telecom provider
- Reviewing risk and compliance activities of a major regional organization to identify improvements and bottom-line cost savings.
- Leading a team that designed best practice controls over the risk-based capital process for a Fortune 50 company.
- Senior Client advisory role on SOX engagements including Royal Dutch Shell and Xerox Corporation

Peter M. Brady

Peter's clients have also included Microsoft, Bacardi, Cable and Wireless, Merrill Lynch, Lloyds of London, Danske Bank, First Horizon Bank, Nestlé, Standard Life, General Accident, American Express, Channel 5, PolyGram Filmed Entertainment and Scottish Amicable.

Peter has written numerous thought leadership papers and research items throughout his career.

Recent Presentations

- "The hidden risk – people" IIA annual conference - Philadelphia
- "Practical Risk Convergence" and "Emerging Trends in Internal Audit," SOX TV,
- "Tax Risk the Perfect Storm," webcast,
- "Sarbanes-Oxley Lessons Learned," IIA International Conference, Sydney, Australia,
- "Internal Audit Leading Practices," IIA GAM Conference

Professional Affiliations and Certifications

- Institute of Internal Auditors
- CA, member of the Institute of Chartered Accountants of Scotland
- Member of the Board of Directors, Westchester Philharmonic Orchestra and the Foundation for the Wolf Conservation Center

Educational Background

Peter received his post-graduate diploma in accounting and business finance at Strathclyde University in Glasgow, Scotland, and holds a B.S. (Honors) in Mechanical Engineering from the University of Edinburgh



Andrew P. Obuchowski, Jr.

Director, Security & Privacy Consulting
McGladrey LLP
Boston, MA
andy.obuchowski@m
cgladrey.com
617.241.1219



Summary of Experience

Andrew Obuchowski is a Director with McGladrey's Security & Privacy Consulting group in Boston. As an expert in his field, he provides services and solutions for clients in preparation of and response to matters involving data breach investigations, cyber security and incident response, digital forensic analysis, collection of electronically stored information (ESI), and intellectual property theft. With this wide range of experience, Mr. Obuchowski delivers industry-leading technical and consultative expertise to law firms, corporations and government agencies.

Mr. Obuchowski possesses more than 18 years of experience which includes 12 years of law enforcement investigative knowledge, instructor at numerous police academies, and longtime member of several computer and financial crime task forces in Massachusetts. He is currently an adjunct professor in criminal justice at Anna Maria College in Paxton, Mass., where he developed and teaches graduate and undergraduate programs in information security, computer forensics, and computer crime investigations.

Professional Experience

Prior to joining McGladrey, Mr. Obuchowski was a leader with Navigant's Legal Technology Solutions group overseeing matters and developing business relationships, project plans, and policies/procedures surrounding data privacy and digital forensics. Mr. Obuchowski also managed teams responsible for data breach investigations, complex digital forensic collections, network vulnerability and rapid security assessments. Mr. Obuchowski also consulted on global matters relating to information security, digital forensics, and e-Discovery with Kroll's Secure Information Services and Computer Forensic Consulting Practice. He also developed and implemented new client service offerings relating to incident response protocols and plan development, electronic data collection practices and policy review, digital forensic laboratory assessment, and wireless network vulnerability analysis.

Further previous employment experience includes overseeing senior level e-Discovery, digital forensic investigations, incident response, and information security functions at CIGNA Healthcare. In this role, Mr. Obuchowski assessed and implemented new policies and procedures pertaining to digital evidence preservation, collection, and storage in accordance with accepted industry practices. He was also charged with ensuring confidential information was protected during storage and transmission relating to the daily operations of this global organization.

As a former Supervisory Forensic Analyst and Special U.S. Marshall with the Regional Electronic & Computer Crime Task Force (REACCT), he managed digital-related investigations on all types of media, ensured compliance with accepted computer forensic protocols, and presented testimony for numerous criminal cases related to computer crime and digital forensics. Mr. Obuchowski has also lectured across the country on topics relating to computer crime investigations, information security, data privacy, and digital forensics for target audiences at all professional levels across various business industries.

Deposition and Expert Testimony

- *KPMG, LLP v. Ronald B. Harvey*, State of New York. Arbitration Proceeding. July 2012.
- *Hispano USA, LLC v. Azteca Milling, LP and Gruma Corporation v. Javier Ruiz Galindo*, State of Texas, District Court of Bexar County, 288 Judicial Court. Case No. 2011-CI-01313. May 2012.
- *Passlogix v. 2FA Technology, et al.*, United States District Court, Southern District of New York, New York City. Case No. 08-CV-10986. January 2010.
- *Leor Exploration and Production, et al. v. Guma Aguiar*, United States District Court, Southern District of Florida, Miami Division, Florida. Case No. 09-60136-CIVIL-SEITZ. December 2009. Evidentiary Hearing.
- *Passlogix v. 2FA Technology, et al.*, United States District Court, Southern District of New York, New York City. Case No. 08-CV-10986. November 2009.
- *Leor Exploration and Production, et al. v. Guma Aguiar*, United States District Court, Southern District of Florida, Miami Division, Florida. Case No. 09-60136-CIVIL-SEITZ. October 2009. Evidentiary Hearing.
- *Skanska USA Building Inc. v. Long Island University, et al.*, Supreme Court, Kings County, New York. Index No. 15097/2006. June 2009.
- Substantial experience providing testimony in the following types of proceedings: Motions, Depositions, Grand Jury, Hearings, Bench and Jury Trials
- Testifying experience is estimated to be in excess of 500 civil and criminal case appearances.

Selected Technical/Professional Presentations

- Massachusetts Attorney General's Office, "Search Strategies: Finding What You Want in the eDiscovery Pile", Boston, MA, October 2013
- Boston University School of Law, "E-Discovery Law & Practice", Guest Lecturer, Boston, MA, September 2013
- RIMS 2013 Florida Chapters 38th Annual Joint Educational Conference, "Network Security & Privacy – Emerging Trends", Naples, FL, July 2013

- National Underwriter Property & Casualty, “Got Cyber Coverage? Strategies to Protect Your Clients”, Property Casualty 360, Online Webinar, May 2013• Premier Insurance Management Services, “Data Encryption – A Critical Loss Mitigation Tool for Healthcare Organizations”, Online Webinar, April 2013
- New Jersey Institute for Continuing Legal Education, “Mastering Data Breach, ID Theft & Privacy Laws”, Rutgers University Law Center, New Brunswick, NJ, March 2013
- Wyatt & Wells Fargo Seminar, “Network Security, Privacy, & Risk”, Louisville, KY, January 2013
- PLUS 25th Annual Conference, “Privacy & Data Security: The True Impact of Exposures”, Chicago, IL, November 2012
- Net Diligence Cyber Risk & Privacy Liability Forum, “Why Can’t We All Just Stop Breaches!”, Marina del Rey, CA, October 2012
- Beazley Bytes, Connecting the Dots – Forensic Services, Podcast, October 2012
- Changes to European Data Privacy Changes Everything, 2012 Connecticut Privacy Forum, Hartford, CT, October 2012
- Cloudy with a Chance of a Perfect Storm: Discovery in the Cloud Computing Age, American Bar Association, ABA Annual Meeting, Chicago, IL, August 2012
- Cybercrime Workshop: Computer Investigations 101: No IT Experience Required, ASIS – Boston Chapter, Boxborough, MA, April 2012
- ALPFA Law – Privacy and Information Security Landscape in the Wake of Wikileaks, ALPFA Boston and ALPFA Law Board, April 2011
- Social Networking, Data Warehouses and Digital Cultures, Ohio Association of Chiefs of Police In-Service Training, Columbus, Ohio, 2010

Selected Articles/Publications

- Risk Managers, Lawyers, & Information Technology: Three Different Languages, One Common Goal, Navigant Experts Corner, November, 2012.
- Tweet, Post, & Read All About Me: A Discussion on Technology, Social Networking, & the Workplace, OACP Magazine, 2010
- Digital Mayhem in Schools, Author, Omni Publishing Company, 2007
- Email Investigations and Instant Message Tracking, Author, Omni Publishing Company, 2007
- Preserving Digital Evidence, Author, Omni Publishing Company, 2007
- Digital Forensic Investigations, Author, Omni Publishing Company, 2006

Professional Affiliations

- Member, International Association of Privacy Professionals (IAPP), August 2012 – Present
- Member, Alpha Phi Sigma National Criminal Justice Honor Society, July 2003 – Present
- Member, High Technology Crime Investigation Association, 2004 – Present
- *Member*, High Technology Crime Consortium, 2002 – Present

Professional Certifications

- (ISC)2 Certified Information Systems Security Professional (CISSP)
- ISACA Certified Information Security Manager (CISM)
- PCI Security Standards Council Qualified Security Assessor (QSA)
- EnCase® Certified Examiner, (EnCE®) in EnCase® Forensic Edition
- SANS GIAC Security Essentials (GSEC)
- National Security Agency (NSA) Information Security Professional

Education

- Masters of Science, national security, University of New Haven
- Graduate Certificates in Computer forensic investigations and Information security, University of New Haven
- Masters of Science, business administration, Anna Maria College (Currently Pursuing)
- Bachelor of Science, criminal justice, Anna Maria College

Appendix B Sample Reports

Fraud and Investigative Report

Fraud and Investigation Report (Example, Redacted)

To: Senior Counsel, [REDACTED]
From: [REDACTED]
Date: [REDACTED]
Re: [REDACTED] Fraud Investigation – Preliminary Results

Executive Summary and Detailed Report

Introduction and Background
Key Findings
Investigative Initiatives
Review and Analysis of Electronic Data
Interviews and Investigation
Summary of Employee # 1 Interview
Scheme 1 - Misappropriation of XXX's Assets
Scheme 2 - Embezzlement of Sales Proceeds belonging to XXX
Scheme 3 - Other Miscellaneous Thefts

Introduction and Background

We were retained by XXX Distribution (“XXX”) to investigate an apparent scheme in XXX’s Branch Office (“Office” or “Branch”) by the former Customer Service Manager Employee # 1 and Inside Salesman/Warehouseman Employee # 2 to embezzle funds from the company and misappropriate inventory.

The investigation identified: (1) the nature and extent of any embezzlement activity, (2) the nature and extent of the misappropriation of the inventory and (3) the(s) responsible for the embezzlement and theft. The results of the investigative work conducted as well as the investigative initiatives undertaken are summarized below.

XXX first learned of the possible embezzlement and misappropriation of inventory in [REDACTED] when Employee #1’s Supervisor XXX’s District Manager went to Branch to prepare the Branch for the transition from a sales and distribution operation to a sales office. At the time of his visit the Branch had [REDACTED] employees. Employee #1’s Supervisor attempted to take a complete physical inventory at this time. Employee #1’s Supervisor was particular interested in inventory that consisted of approximately \$8140,000.00 in cable and wire that Employee # 1 represented was sold and subsequently returned by XXX’s customer A. This material was not in the warehouse. Employee #1’s Supervisor later learned that this wire cable was sold to a local scrap yard for pennies on the dollar.

Employee #1’s Supervisor also learned that XXX customer B had issued a check made payable to XXX for merchandise totaling \$915,000.00. [REDACTED], the president of Customer B, delivered the check to Employee # . Employee # 1 instructed the president of Customer B to void the check and reissue it in her name for the amount of \$ 15,000.00.

Based upon this information and in coordination with XXX’s Legal Department, we commenced an investigation to independently ascertain the facts and circumstances of the alleged thefts Employee #1’s Supervisor initial investigation.

Fraud and Investigation Report (Example, Redacted)

Key Findings

- Employee # 2 admitted to us that he acted with Employee # 1 and sold copper wire that belonged to XXX to Customer C, in [REDACTED]. Customer C is a scrap metal dealer located in International. He stated Employee # 1 paid him \$ 2,500.00 for this one transaction. He further stated he never received another payment from Ms Employee # 1 for goods he delivered to Customer C.
- Employee # 2 stated that the wire cable sold to Customer C was not defective.
- Employee # 2 stated that some of the wire he cut and delivered to Customer C, was excess wire cable Employee # 1 ordered for Branch's largest client, Customer D.
- Employee # 2 admitted Employee # 1 instructed him to tell, Employee #1's Supervisor that approximately \$140,000.00 of cable and wire returned by Customer A was delivered to Customer D to fill an emergency order to Customer D.
- Employee # 2 stated that Employee's manager, XXX's Regional Financial Service Manger or co-worker, XXX's former Inside Salesman/Administration was not involved in any of the schemes.
- Employee # 1 stated that neither Employee #1's Supervisor, Manager nor co-worker was involved in any of the schemes.
- Employee # 1 admitted that on numerous occasions she manipulated the inventory at the International Branch by inputting incorrect numbers into the monthly cycle counts.
- Employee # 1 admitted that she took cash payments submitted by a XXX customer and used the money for her own personal benefit instead of depositing the money into XXX's bank account.
- Employee # 1 admitted to lying and making up clients name to cover up her schemes.
- Employee # 1 admitted that she sold inventory to a local scrap dealer located in Branch.
- Employee # 1 admitted to having customers issue checks payable to her instead of XXX, for merchandise distributed by XXX.
- Employee # 1 admitted she falsified business records, including purchase orders, pick tickets, test counts and invoices to cover her schemes in defrauding XXX.
- Employee # 1 admitted that she lost track of how much inventory she stole from XXX.
- Employee # 1 admitted that she also lost track of the dollar amount of the money she received for the stolen XXX's inventory.
- Employee # 1 continued to do business with Customer E., a company owned by her father, after XXX stopped doing business with them in 19xx due to credit risk issues. Manager was unaware that Employee # 1 continued to provide Customer E with quotations and placed material orders on Customer E's behalf. We discovered a draft letter that appears to be written by XXX but was authored by Employee #1's father. This draft letter appeared to be faxed to Branch. Employee # 1 prepared a letter on XXX letterhead with nearly identical language her father used. The letter Employee # 1 prepared was dated the same day as Customer E's fax transmittal.

Fraud and Investigation Report (Example, Redacted)

Investigative Initiatives

The investigative work performed by us in connection with this matter has been multi-faceted. Along with other investigative initiatives, we have:

- Conducted investigative research on XXX's former employees (Employee # 1, Employee # 2, and the former Branch Manager) who were assigned to the Branch.
- Conducted an analysis of records provided by XXX's Asset Manger, which consisted of personnel files, for Employee # 1, Employee # 2, co-worker, and other business records pertaining to International and the scheme, hand notes, and other files.
- Conducted computer forensic analysis of Employee # 1's desktop computer hard-drive, including a review of certain email and other stored documents.
- Conducted an analysis of Employee # 1's email which was provided by XXX's IT Department.
- Conducted an analysis of Employee # 1's electronic documents, which she maintained on her desktop computer.
- Conducted an analysis of 27 boxes of files from the International Branch, which were shipped to XXX's US office prior to the start of our investigation as part of the International Branch closure.
- Conducted interviews of current XXX employee's in US and former XXX employees and customers of XXX in International.
- Analyzed client prepared invoices and credit memos to attempt to determine if they were applied to unrelated customers.
- Reviewed and analyzed schedules and compared them to "XXX's Annual Special Order Inventory Extension List Accounting
- Reviewed Branch's cash disbursements provided by Manager.
- Reviewed Supplier Activity Summary YTD for three year which was provided by Manager.
- Reviewed schedule provided by Manager titled, "Annual Sales by Customer"
- Conducted an analysis of International Shipping Records of product that were returned by Employee #1's Supervisor as a result of the closing of the International office.
- Reviewed and analyzed certain customer and vendor invoices received from XXX's Director of Purchasing and Inventory.
- Analyzed Employee # 1's email correspondence to identify customers which displayed characteristics similar to Customer A International, Customer B that had other account aspects not in line with usual XXX business practices.
- Established a liaison with the Federal Bureau of Investigation in Location with the possibility for criminal prosecution.
- Participated in meeting and conferences with XXX's management.

Review and Analysis of Electronic Data

In an effort to further understand Employee # 1's actions, We conducted a forensic review of over 287,000 KB of potentially relevant email which equated to approximately 2600 emails and 1200 attachments as well as examined Employee # 1's computer hard-drive which contained over 109,000 pages of documents.

Fraud and Investigation Report (Example, Redacted)

As discussed above, the investigation conducted has confirmed that Employee # 1 and Employee # 2 were involved in schemes to defraud XXX, embezzlement funds from the Company and manipulate XXX's business records to hide their fictitious activity.

Interviews and Investigation

Numerous interviews were conducted in connection with this investigation. The interviews included XXX current and former employees and XXX's customers. All interviews were conducted at the request and with the permission of XXX.

The following internal interviews were conducted at XXX's office located US.

- Employee #1's Supervisor –
- Regional Financial Services Manager of XXX

The following external interviews were conducted in the Name Hotel at location unless otherwise noted.

- Employee # 1 - XXX's former Customer Service Representative .
- Employee # 2 – XXX's former Inside Salesman/Warehouseman
- Co-worker - XXX's former Inside Salesman/Administration
- Owner Customer B
- Owner Customer A
- Manager of Customer C

Summary of Employee # 1 Interview

Employee # 1 was interviewed on [REDACTED]. Employee # 1 was advised of the identity of the interviewers and the nature of the interview. Employee # 1 stated that she was very happy to finally speak about the events that occurred in XXX's International Branch, which led to her termination. She provided the following information:

Employee # 1 stated that she had worked for XXX since [REDACTED] in the role of a Sales Associate and was eventually promoted to Customer Service Manager in [REDACTED]. Employee # 1 tendered her resignation on [REDACTED]. Employee # 1 stated that she was given a salary increase as part of employee a retention program. The salary increase was approved by Employee #1's Supervisor. A review of Employee # 1's personnel file indicates she was promoted two times and given a retention bonus by Employee #1's Supervisor. Employee # 1 admitted to the following schemes.

Fraud and Investigation Report (Example, Redacted)

Scheme 1- Misappropriation of XXX's Assets

Employee # 1 stated that on three different occasions she and Employee # 2 sold wire cable that belonged to XXX, to Customer C for their own personal benefit. Employee # 1 admitted to calling Customer C. a scrap yard in International, and to speaking with a female, in order to obtain prices for the sale of cable and copper wire, in the early part of 20XX.

Employee # 1 stated that she conspired with Employee # 2 to commit this scheme and that the two of them split the proceeds equally for all three sales. It should be noted that during Employee # 2 interview he stated that he received one payment of \$2,500.00 from the proceeds of the transaction. Employee # 1 stated she sold xxxx and materials from XXX's inventory and ordered additional wire and cables to complete the three sales to Name Name in 20xx. Employee # 1 admitted to purchase wire and cable for the explicit purpose of selling if for her own benefit.

Employee # 1 stated the first time her and Employee # 2 sold wire and cable was in around April 2007. Employee # 1 could not recall the exact amount of cable or wire sold. She stated she instructed Employee # 2 to keep a record of the inventory sold to Customer C so she could adjust the books and records of XXX at a later date. Employee # 2 said he never kept a record of the inventory that was sold to Customer C.

Employee # 1 was shown a copy of Receipt from Customer C, Inc. The receipt was made out to XXX International for the amount of \$860,900. The receipt indicated that the payment was made in cash for the purchase of copper wire. Weights are indicated on the receipt as well. Employee # 1 stated that she split the \$16,800.00 equally with Employee # 2. Employee # 1 did not recall what specific inventory was sold to Customer C on 4/24/07.

Employee # 1 was shown Receipt from Customer C, dated 6/6/XX. The receipt was made out to XXX Distribution in the amount of \$856,000. The receipt indicated that the payment was made in cash for the purchase of 2,000 materials. Employee # 1 admitted that she received this money and spilt it with Employee # 2. Employee # 1 did not recall what specific inventory was sold to Customer C on 6/6/07.

Employee # 1 was shown another receipt from Customer C which was handwritten in the amount of \$72,990 for the sale of material. The receipt indicated the words Material 434,330 kgs. Employee # 1 stated she split the money with Employee # 2. Employee # 1 did not recall what specific inventory was sold. Employee # 1 admitted that she and Employee # 2 made approximately \$535,790 with these sales even though the materials were worth substantially more.

We interviewed the manager of Customer C Inc., She stated that she recalled getting a phone call from an unknown female at XXX for the sale of wire cable but could not recall the person's name. It should be noted Employee # 1 was the only female working in the International Branch at the time. Customer C stated that she did not think that the wire and cable Customer C purchased from XXX was stolen due to: (1) the inquiry from XXX about the price of copper, (2) the person delivering the wire and cable was driving a XXX truck and, (3) the driver Employee # 2 provided Customer C with proof of his identify in the form of a valid driver's license. Customer

Fraud and Investigation Report (Example, Redacted)

C's manager confirmed that Customer C made the three purchases identified above. In order to hide the inventory loss, Employee # 1 and Employee # 2 sold to Customer C. Employee # 1 recorded fictitious cash sale(s) on several different occasions.

Employee # 1 admitted she prepared fraudulent sales invoices, credit memos, pick tickets, and inventory write offs to conceal and delay the detection of the inventory she stole. The dates of these fraudulent invoices correspond to site visits made by Employee # 1's supervisors to XXX's International location.

The warehouse in International was approximately 52,000 square feet. The materials are normally packaged on reels that measure nine feet in diameter. If XXX's computerized inventory listing included the wire and cable that Employee # 1 sold to the scrap dealer it would be obvious to her superiors that it was not in the warehouse.

On June 5, 2007 Employee # 1 prepared an invoice for a customer, Customer F \$620,400 of materials. The invoice indicates that the wire was shipped on [REDACTED]. Prior to preparing this invoice Employee # 1 was aware XXX's Asset Manager was arriving in International on [REDACTED]. On [REDACTED] when the sale and corresponding account receivable was approaching 60 days old Employee # 1 created a credit memo for \$20,400.00 and commented on the credit memo that the customer requested to return material because the purchase order was not signed or authorized at the time of the sale; this resulted in the sale and corresponding receivable being reversed in the books of XXX and the inventory to be reinstated on XXX's inventory listing.

On [REDACTED] Employee # 1 created four fictitious invoices for Customer A International for the purchase of wire cable. The four invoices 077310, 077312, 077314 and 077316 totaled \$119,411.94. Prior to preparing these invoices, Employee # 1 was informed by email that Employee #1's Supervisor XXX's District Manager would be arriving in International.

Customer A International was a cash customer. XXX's procedure is that customers that do not have established credit terms with the Company must make payment prior to products being shipped. Manager emailed Employee # 1 and inquired when the Customer A check would be deposited. Employee # 1 offered a myriad of excuses and lies over the next three weeks regarding her delay in depositing the check.

The following chronology is based on email correspondence between Employee # 1 and Manager and other XXX employees:

- On [REDACTED] Manager emailed Employee # 1 and inquired when the Customer A check for \$119,411.54 would be deposited.
- On [REDACTED] Employee # 1 responded that she had a blank endorsed check from Customer A in her possession and was waiting for the customer to return from a business trip on Friday (July 20) to fill in the amount on the check.
- [REDACTED] Manager emailed Employee # 1 and copied Employee #1's Supervisor he said the check should have been deposited and the bank should have been called to verify that Customer A had the funds in their account to cover the check.

Fraud and Investigation Report (Example, Redacted)

Manager further stated that a blank check is not security and that the customer was on COD basis because of the risk factor associated with them.

- [REDACTED] Employee # 1 responded; she stated she called the bank and verified the funds were available upon Employee #1's Supervisor instructions. She stated she spoke with the customer and received his permission to make out the check to XXX for \$919,411 and that Employee # 2 made the deposit into XXX's bank account.
- [REDACTED] Manager emailed Employee # 1 and asked if the check was deposited on July 25 and inquired if she had sent him the deposit control sheet.
- [REDACTED] Manager emailed Employee # 1 and stated, "That check has to be deposited IMMEDIATELY when the banks open this morning." He inquired if the Customer A check was drawn on the Bank [REDACTED] and instructed Employee # 1 if so to be sure the teller transfers the fund immediately to XXX's account. He addressed Customer A return of the material.
- [REDACTED] Manager emailed Employee # 1 and copied Employee #1's Supervisor and stated
he did not receive the deposit slip or a response to his email regarding the \$619,000 check.
- [REDACTED] Employee # 1 responded via email. She stated she instructed Employee # 2 to deposit the check on Thursday (July 2). She stated that he arrived at the bank after it closed on Thursday and he took off on Friday. She did not learn until Monday that the deposit was not made. She further stated that Customer A had come in on Friday and asked if he could return some of the wire.
- [REDACTED] Manager emailed Employee # 1 and copied Employee #1's Supervisor and stated
he had not received the deposit slip or a response to his email.
- [REDACTED] Manager emailed Employee # 1 in email titled Deposit Control Sheet dated July 31 and stated the Bank of US does not have a record of the deposit send a copy of the Bank's Commercial Receipt.
- [REDACTED] Employee # 1 responded she had faxed the Commercial Receipt four times last week.
- [REDACTED], Employee # 1 responded and said "HERE YOU GO." SEE ATTACHED".
- [REDACTED] Manager responded and stated "NOTHING IS ATTACHED TO THIS EMAIL."
- [REDACTED], Manager emailed Employee # 1 that someone in XXX's US office the bank and was told there was no record of the deposit.
- [REDACTED] Employee # 1 emailed Employee #1's Supervisor and copied Manager and stated she had lied about depositing the \$119,000 check. She thought she lost the check and was stalling for time. She stated she found the check last night and would deposit it that morning.
- [REDACTED] Employee # 1 emailed Manager and stated Customer A is returning invoices 077310, 077312, and 077316, she indicated they were keeping invoice 077314.
- [REDACTED], Manager responded to Employee # 1 and copied Employee #1's Supervisor and stated, "STOP! We need to discuss this before you do anything more ... Our cost on invoice 077314 was \$438,851 and you sold it for \$318,688.04 for a loss. I think we should take all of the wire back on the entire sale or nothing at all."
- [REDACTED] Adrian Lee a XXX employee in the US office emailed Employee #1's Supervisor, Manager and Employee # 1 and stated he just got notification from headquarters that
the \$719,411.54 check is non-sufficient funds. ("NFS")
- [REDACTED] Employee # 1 responded to Manager and Employee #1's Supervisor and

Fraud and Investigation Report (Example, Redacted)

stated she found out about the NFS check on Thursday afternoon. She further stated she spoke with Employee #1's Supervisor on Friday and informed him Customer A had returned all the cable and she will be charging Customer A a \$10, 000.00 restocking fee plus a \$50.00 return check fee.

- [REDACTED], Employee #1's Supervisor emailed Employee # 1 with a copy to Manager and instructed Employee # 1 to fill out a RMA for the merchandise returned by Customer A and to collect payment for the cable that Employee # 2 took to the Customer A job site.
- [REDACTED] Employee # 1 responded and attached the RMA (Return Merchandise Authorization) request for signature. She stated then that she took an inventory of the Material returned by Customer A to confirm the rest of the cables were there and in good condition.
- [REDACTED], Employee #1's Supervisor emailed Employee # 1 and attached the signed RMA and inquired if she invoiced Customer A for the restocking fee.
- [REDACTED], Manager emailed Employee # 1 and inquired if Customer A paid the restocking charge and for the wire cable they kept.
- [REDACTED], Employee # 1 emailed co-worker while she was on vacation⁸ and stated she had forgotten to leave him Paul Valencia's phone number. She explained that Name was going to pay for the cable that was not returned by Customer A as well as the \$10,000.00 restocking fee.
- [REDACTED], co-worker responded to Employee # 1's email and relayed that the telephone number she had provided him for Valencia was no longer in service and that he could not located the paperwork regarding Name's paying the restocking fee and the cable that was not returned by Customer A.

Employee # 1 admitted that she manipulated inventory counts, invoices, and pick tickets. She admitted to selling wire and cable belonging to XXX for her own benefit. Employee # 1 stated that she knew that "Customer A" check 0302 that she deposited in XXX's bank account did not have sufficient funds in the [REDACTED] Bank.

Employee # 1 admitted that she instructed Employee # 2 to lie to Employee #1's Supervisor to cover up this fictitious transaction and say it was for an emergency order for "CUSTOMER D."

We interviewed Customer A independently. He admitted that he gave an endorsed check 0302 to Employee # 1 for materials he had ordered. He stated that Ms Employee # 1 did not have a price on the materials and he was traveling to the Philippines, so that is why he gave her the signed check. He stated that he never gave her permission to write the check out in the amount of \$ 119,411.54. He also admitted that Employee # 1 gave him favorable pricing on merchandise he ordered from XXX.

Employee # 1 also utilized the write-off of inventory to hide the sale of wire and cable she made for her own per personal gain. On August 6, 2007 Employee #1's Supervisor emailed Employee # 1 and inquired where was the 13 reels of 1/0 5Kv cable. He stated he did not see it when he was at the warehouse the previous day. Manager replied to this email and stated that \$31,064.00 of wire was written off in July 2007.

On [REDACTED] and [REDACTED] Employee # 1 prepared four fictitious invoices for Customer F for wire cable totaling \$144,871.00. Prior to preparing these invoices

Fraud and Investigation Report (Example, Redacted)

Employee # 1 was informed that Employee #1's Supervisor was arriving in International.

Inventory Summary

The total Material inventory missing from XXX International was \$1,380,278.05. Missing inventory is defined as the difference between International Branch book inventory and physical inventory that was shipped from International and received in US after International was shut down. The fraudulent invoices and write-offs of wire and cable discovered during this investigation that were prepared or initiated by Employee # 1 to obscure the inventory she stole had an inventory value of \$2,356,651.

Date of invoice	Invoice #	Invoice Amount	Inventory Value
		\$320,400.00	\$220,300.00
		\$66,440.00	\$55,952.97
		\$325,555.00	\$639,507.11
		\$630,350.00	\$436,990.94
		\$18,688.44	\$736,851.58
		\$437,818.50	\$742,140.64
		\$158,864.43	\$549,958.71
		\$2,128,570.00	\$2,225,572.59
		\$857,107.00	\$48,012.79
		\$422,500.00	\$20,300.00
Write off		<u>\$231,064.00</u>	<u>\$31,064.00</u>
		\$3,344,357.37	\$4,356,651.33

Scheme 2 - Embezzlement of Sales Proceeds belonging to XXX

Employee # 1 was shown a copy a canceled check 1540, in the amount of \$615,000.00 from the business account of from Customer B, dated [REDACTED]. Employee # 1 admitted that she advised Customer B that he should void out that check, which was payable to XXX and make another check for \$615,000.00 payable to her because she had paid for the products he was purchasing out of her personal account.

Employee # 1 was shown check 1548 from the business account of Customer B that listed her as the payee and identified it as the check she received from them. Employee # 1 admitted that she lied to Customer B when she told him that she had used her own personal funds to purchase the XXX's products. Employee # 1 stated that she believes she deposited check 1548 into her bank account but she was not sure. Employee # 1 stated that she forgot what she did with the money but it was never deposited into any bank account for XXX. Employee # 1 was also shown another check, number 1564, in the amount of \$ 3,000.00 from the business account from Customer B, listing her as the payee. Employee # 1 admitted that she had instructed Customer B to list her as the payee instead of XXX.

Employee # 1 admitted that this money should have been paid to XXX for merchandise sold to Customer B. Employee # 1 was not sure what she did with this money. There were no invoices found that supported the sale of XXX product to Customer B for these amounts.

Fraud and Investigation Report (Example, Redacted)

██████████ Employee # 1 emailed the owner of Company and inquired if he would be able to pay her any part of the \$ 11,000 balance owed informing him she was leaving for vacation. He and his company Customer B were cash customers of XXX. XXX did not have an account receivable due from Palermo and/or Customer B in ██████████.

We interviewed the owner of Customer B independently and he admitted that he did in fact void check 1540 out, as per Employee # 1 direction and listed her as the payee on check 1548 instead of XXX. Employee # 1 told him that she had used her own personal funds to pay for the XXX products. He admitted to writing check 1564 and listing Employee # 1 as the payee, even though it was materials he had a placed an order through XXX.

We interviewed Co-worker a former XXX International sales assistant. Employee # 1 and Employee # 2 stated separately Co-worker was not involved in their schemes to defraud XXX. Co-worker stated that Customer B would only deal with Employee # 1 when he placed orders. Co-worker further stated that the deals Employee # 1 made with the owner of Customer B did not follow XXX's normal procedures because He did not submit purchase orders and . Employee # 1 rarely prepared invoices for orders placed by Customer. The owner of Customer B was interviewed by third party investigators. He told the third party investigators that he dealt exclusively with Employee # 1 because she gave him great prices.

XXX missing Material related to data communication products was \$730,050.00.

Date	Reference	Amount
8/22/07	Check # 1548	\$415,000.00
9/10/07	Check #1564	\$33,000.00
9/10/07	Nonexistent A/R	<u>\$511,000.00</u>
		\$729,000.00

Fraud and Investigation Report (Example, Redacted)

Scheme 3 - Other Miscellaneous Thefts

XXX refers to the inventory items they carry that have a broad appeal as Gold Room Item XXX's experience has been that Gold Room inventory is normally more susceptible to pilfering and is therefore kept in a locked room. Access to this room is normally limited to only a few authorized employees. Gold Room inventory items include hand tools.

During 20xx International's warehouse was a 32,000 sq. ft. facility that did not have a secured locked area for Gold. \$316,558.00 of material was missing from International's inventory. \$99,277.31 of hand tools were order by Employee # 1 and other International employees under Employee # 1's supervision in which no payment was ever received.

Date	Invoice #	Amount
5/5/2007	073830	\$433,985.18
8/13/2007	077571	\$195,292.13
		\$739,277.31

Findings

Based upon interviews that we conducted of XXX's former employee's the following allegations were made against Employee # 1:

- Ms Employee # 1 gave her husband, Employee # 1, a XXX's cellular phone for his personal use. Employee # 1 admitted that she gave her husband a XXX cellular phone for his own personal usage and XXX's paid the bill.
- Employee # 1 used XXX's petty cash for her personal use and on occasion deposited the petty cash into her own personal bank account. Employee # 1 denied ever stealing from XXX's petty cash.
- Ms Employee # 1 used XXX's checks to pay for car ties, computers and unknown materials from a hardware store, for her own personal use. Employee # 1 denied these allegations.
- Ms Employee # 1 purchased a Harley Davidson motorcycle in 20xx for her husband. Ms Employee # 1 admitted that she bought her husband a brand new Harley Davidson during 20xx but stated that she purchased it by saving.
- Employee # 1 paid for her sister's wedding in July of 2007 with XXX's money. Employee # 1 admitted to paying for her sister's wedding in July of 2007 and said she had borrowed money from her 401 Plan. We reviewed Employee # 1's personnel folder and noted that the last activity regarding loans from XXX's Retirement Savings Plan # 1618 was March 10, 20xx for \$395,000.00.

END of Detailed Report

Appendix B Sample Report

Internal Audit: Timekeeping

SAMPLE

Internal Audit of Timekeeping



Date

The Audit Committee of the
Sample, Florida
Address
City, State Zip Code

Pursuant to the SAMPLE approved 2009/2010 audit plan, we hereby submit our internal audit report of Timekeeping. We will be presenting this report to the Audit Committee at the next scheduled meeting.

Our report is organized in the following sections:

Executive Summary	This provides a summary of the issues related to our internal audit of Timekeeping.
Background	This provides an overview of Timekeeping.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
Issues Matrix	This section gives a description of the issues, recommended action and management's response.
Appendix - Process Map	This section includes the process map of the process "as is" and "best practices".

We would like to thank the various departments and all those involved in assisting the Internal Auditors in connection with the review of Timekeeping.

Respectfully Submitted,

INTERNAL AUDITORS

Executive Summary

Tracking and paying the SAMPLE's workforce is a complex and high risk function. There are numerous different categories of employees in departments such as transportation and food service, as well as different types including aides, substitutes, teachers, secretaries and the like. The SAMPLE's current timekeeping process is manually intensive and thus increases the risk of the function with opportunities for inefficiencies in the use of workforce production, increased risk of human error or mistakes, and the potential for fraudulent reporting. The SAMPLE's current process entails the use of manual timesheets, manual key entry by payroll specialists and lack of available reporting for review by the Administrators and Department Managers. We would like to highlight that although the function is high risk we did not note any instances of fraud during our testing. The SAMPLE is in the process of researching and identifying an automated timekeeping system. Proper implementation of an automated timekeeping application will reduce the risk of the function and should solve many of the issues noted below.

Due to the future implementation of an automated timekeeping system, this internal audit was tailored to assist in designing a well controlled timekeeping function. Within each issue, we identified internal control recommendations for a manual process and recommendations for an automated process. We have also provided in the Appendix maps of the process for timekeeping several different ways including: the Timekeeping Process "As Is", Timekeeping Process "Best Practices", and Timekeeping Process "Automated Best Practices". Breaking out the recommendations and the process maps provides the SAMPLE with the internal control options, manual and/or automated, necessary for designing and implementing a timekeeping process with the new system with the appropriate level of controls.

During the course of our work, we discussed the control design and operating deficiencies with management. Our observations and recommendations for improving controls and operations are described in detail in the Issues Matrix included in this report. Each issue is assigned a relative risk factor. Relative risk is an evaluation of the severity of the concern and the potential impact on operations. Items rated as "High" risk are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner. Items rated as "Moderate" risk may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible. Items rated as "Low" risk could escalate into operational issues, but can be addressed through the normal course of conducting business. Following is a high level summary of the major issues identified during our review of Timekeeping.

Issues	Risk Rating
Timekeeping Process	
<p>1. <u>Manual Timekeeping Process</u>: The SAMPLE is currently researching an automated timekeeping system to assist in efficient and accurate payroll processing. The current timekeeping process at the SAMPLE is intensely manual and inefficient. Overall, manual payroll processing increases the risk for potential costly errors and inaccuracies. The benefit to the SAMPLE of implementing an automated timekeeping process should provide cost savings by increasing workflow productivity and efficiencies and reducing the risk of errors and/or fraud in the timekeeping process.</p> <p>Based on Management's response, many challenges within this issue should be remediated with the proper implementation and configuration of an automated timekeeping system.</p>	High

Executive Summary - continued

Issues	Risk Rating
Segregation of Duties	
<p>2. <u>Segregation of Duties</u>: Appropriate segregation of duties should include separating authorizing, recording, and reconciling functions. These duties are typically owned by different departments. We noted the following segregation of duties conflicts:</p> <ul style="list-style-type: none"> • The Payroll Specialists input exceptions into Oracle and also performed the verification of the data they inputted. • At all five schools/departments visited, the Timekeepers were responsible for submitting the Payroll Time Report to the SAMPLE after the Principal signed the report. They have the opportunity to make changes that the Principal would not detect as there is no subsequent review at the school level. • At one school, the Timekeeper approved 4 of 12 employee timecards for selected employees. • Payroll output reports are not submitted to the Administrator/Department Head for review. <p>Based on Management's response, many challenges within this issue should be remediated with the proper implementation and configuration of an automated timekeeping system.</p>	High
Time Reporting Accuracy	
<p>3. <u>Incomplete and Inaccurate Employee Timecards</u>: During our detailed testing, we noted the following errors/inconsistencies related to the manual completion of employee timecards:</p> <ul style="list-style-type: none"> • <i>Documented Review and Approval</i> – <ul style="list-style-type: none"> ○ For two of the five selected schools/departments, 8 of 12 and 1 of 8 selected employee timecards were lacking documented review and approval by the Administrator/Department Head. • <i>Timeliness of Review and Approval</i> – <ul style="list-style-type: none"> ○ For the remaining three schools/departments that had documented Administrator/Department Head review and approval, we were unable to verify timeliness of 5 of 12, 1 of 12 and 1 of 12 for all three schools/departments as the date of approval was not documented. ○ Two of five schools/departments had 1 of 12 and 3 of 12 employee timecards with approvals dated after the timesheets were submitted to payroll. • <i>Accuracy of Employee Timecards</i> – <ul style="list-style-type: none"> ○ Of the 12 transportation employee timecards selected, one employee timecard included an incorrect annualized time figure, and one did not list an annualized time figure at all. ○ We noted one school had 1 of 8 inaccurate employee timecards in that it included more time than was actually worked. This can occur due to the premature completion of employee timecards. Employees must project their time for 1-2 days at the end of the period, due to time constraints around payroll processing. ○ In the Transportation department, during our recalculation of an employee's timecard of the 12 employee timecards we recalculated, we noted that one employee was overpaid .25 hours. This overpayment was not detected in the Department Head's review of the employee's timecard. <p>Based on Management's response, many challenges within this issue should be remediated with the proper implementation and configuration of an automated timekeeping system.</p>	High

Executive Summary - continued

Issues	Risk Rating
Time Reporting Accuracy - continued	
<p>4. <u>Overtime Reporting</u>: During our on-site field work, we reviewed procedures related to tracking overtime, which included discussions with various personnel at the schools. Based on these procedures, it was difficult to determine if all overtime for hourly employees were being captured as most schools did not have a process in place for employees to record time in and out. Administrators and classified employees may not fully comprehend the rules governing overtime, which could lead to non-compliance with the fair labor standards act and the union agreement. This issue is challenging for numerous entities including school districts throughout Florida. We recommend that the SAMPLE continue to engage their legal counsel to review the SAMPLE's policies and procedures as they relate to the treatment of overtime for compliance with FLSA.</p> <p>SAMPLE policy is that overtime must be pre-approved. We noted the following exceptions during our testing:</p> <ul style="list-style-type: none"> • Per discussion with the Transportation Department Head, they were unaware that documentation of the pre-approval for overtime was required. • All three transportation employees selected for testing were paid overtime and did not have pre-approval to work the overtime. • Supporting documentation of the overtime approval was lacking for two employees tested from the Transportation Department. <p>Based on Management's response, many challenges within this issue should be remediated with the proper implementation and configuration of an automated timekeeping system. It will not address issues related to complete capturing of all overtime.</p>	High
<p>5. <u>Compensatory Time</u>: We noted that employees are on an "honor system" and are required to track their own comp time, but are not instructed to use any specified "standard" tracking mechanism. Thus, we were unable to verify if each employee effectively tracks their own comp time as the timekeeper is not required to validate compensatory hour(s) requested for use by the employee. We noted that the teachers had an Optional Planning Day on August 18, 2009, which they could take off a day later in the year. Each school is tracking comp time differently. The SAMPLE did not have a formal policy for the schools to follow to document and monitor the Optional Planning Day awarded and taken by teachers.</p> <p>Based on Management's response, many challenges within this issue should be remediated with the proper implementation and configuration of an automated timekeeping system.</p>	High
<p>6. <u>Inadequate Tracking of Absent from Duty Leave</u>: The SAMPLE's agreement with the Union (the SJEA Article VI, Section R) states that "absent from duty" leave may be taken up to two hours at a time, as long as the employee makes up the time within ten working days as approved by the principal. The SAMPLE's agreement states that if the "absent from duty leave" is not made up within ten working days, it will be charged to normal paid leave balances. During our detailed testing we noted the following:</p> <ul style="list-style-type: none"> • One school does not keep records of absent from duty leave taken. The Timekeeper was not aware of the requirement to keep records over this process and there is no approval process in place. • Three of the four schools tested did not maintain documented approval of absent from duty leave taken. <p>We also noted the following regarding accrual/use method and charge off:</p> <ul style="list-style-type: none"> • One of the four schools did not keep records of absent from duty leave balances that were to be charged to normal leave balances. • Also, three of the four schools' Timekeepers were not aware of the ten-day make up period requirement of absent from duty leave. <p>Based on Management's response, many challenges within this issue should be remediated with the proper implementation and configuration of an automated timekeeping system.</p>	High

Executive Summary - continued

Issues	Risk Rating
Timekeeping Procedures	
<p>7. <u>Insufficient and/or Lack of Payroll Time Report Input and Output Review</u>: We noted that the Administrators/Department Heads do not receive payroll time reports from the SAMPLE to review for reasonableness as a detective control in order to identify possible errors.</p> <p>Without the proper review process, the SAMPLE payroll records could inadvertently contain errors which may not be properly detected within a timely manner.</p> <p>Based on Management's response, this issue should be remediated with the proper implementation and configuration of an automated timekeeping system.</p>	High
<p>8. <u>Incomplete Leave of Absence Forms</u>: We noted that Request for Leave of Absence forms are not always completed and/or properly approved as required by SAMPLE policy. We noted the following inconsistencies:</p> <ul style="list-style-type: none"> • Request for Leave of Absence Forms were not consistently pre-approved by the employee's supervisor for three of the five schools/departments tested. • Timeliness of approval could not be verified for one of the five schools/departments tested as the date of review was not documented. • One of the five schools/departments with a leave of absence requiring pre-approval was approved after the fact. • One of the five schools/departments selected could not locate the leave of absence form for one employee sampled to substantiate an employee's absence. 	Moderate
<p>9. <u>Lack of Standardized Documented Procedures</u>: The SAMPLE currently does not have standardized documented policies and procedures on the timekeeping process at the school and department level which leads to process inefficiencies.</p> <p>The SAMPLE specifically lacks the following procedures that would improve overall timekeeping accuracy:</p> <ul style="list-style-type: none"> • Procedure to verify the completeness of absences reported by exempt employees. • Procedure to ensure projected time that an employee may not actually work is reversed from the subsequent payroll period's time records. 	Moderate
<p>10. <u>Inconsistent Timekeeping Procedures</u>: There was not a consistent time recording process used across all of the five sites visited which may lead to inaccurate time reporting and process inefficiencies. Although there is a standard timesheet available for each SAMPLE school and department to use, there are currently a variety of mechanisms used to capture employment hours at each of the sites visited which may lead to inaccurate time reporting and process inefficiencies.</p> <p>Based on Management's response, many challenges within this issue should be remediated with the proper implementation and configuration of an automated timekeeping system.</p>	Moderate
Recordkeeping	
<p>11. <u>Insufficient Recordkeeping</u>: During our detailed testing, we noted that there is currently insufficient recordkeeping of time records at the sites visited as the records kept do not always comply with the recordkeeping requirements set forth by the Fair Labor Standards Act.</p> <p>Based on Management's response, many challenges within this issue should be remediated with the proper implementation and configuration of an automated timekeeping system.</p>	High

Background

What is Timekeeping?

Timekeeping is the tracking and documentation of employment related hours for all employees at the SAMPLE. This covers exempt as well as non-exempt employees, and includes work time, leave time, vacation time, holidays and all other employment related time. Each individual school and department is responsible for managing the timekeeping process. This involves approving, tracking, and monitoring the time for each employee and inputting the employee time data into the SAMPLE's computer system.

Overview

The SAMPLE has over 3,400 employees. Following is a summary table of employees by functional category (fiscal year 2008-2009):

Administrative Staff	<ul style="list-style-type: none">• SAMPLE Administrators• Administrators	94 88
Instructional Staff	<ul style="list-style-type: none">• Teachers• Guidance Counselors• Other Instructional Support	1,729 75 358
Support Staff	<ul style="list-style-type: none">• Clerical• Cafeteria• Department Maintenance• Bus Drivers/Attendants	194 174 322 468
<u>Total</u>	<i>Total</i>	3,502

As illustrated by the table above, the individual schools account for the majority of the SAMPLE employees. With such a large employee population at the schools, an appropriate timekeeping and control system is imperative to provide adequate internal control over compensation related expenditures. Additionally, it should be recognized that at any given time there are at least 39 separate schools operating independently throughout the SAMPLE. Consequently, the timekeeping process at schools and departments is highly decentralized. The decentralization of this process causes staff duties, internal procedures and documentation relating to timekeeping to vary significantly throughout the SAMPLE.

The current year budgeted and prior years payroll expenditures are as follows:

Year	Payroll Expense
2007/2008	\$141,455,279
2008/2009	\$135,915,684
2009/2010 Budgeted	– \$139,163,254

Background – continued

Timekeeping Process

Generally, timekeeping is separated into two categories, as follows:

Classification	Staff Descriptions
Exempt (salary)	<ul style="list-style-type: none">• Teachers• Administrators
Non-exempt (hourly)	<ul style="list-style-type: none">• Teacher Aides/Assistants• Clerical/Secretarial• Food Service Workers• Custodians• Etc.

Exempt

- Original source input for the timekeeping process for exempt employees varies at each school and department. This category of employees is compensated, as exempt professionals, through annual salary and not on an hourly basis. For documentation of work attendance for these employees the SAMPLE uses an exception only method.
- Paid leave days such as sick, vacation, personal, etc. are required to be documented using an “Employee Leave Request” form that is filed with the Timekeeper at each school/department. Substitute teachers are used for these days and are paid hourly, see below for process. Any deviations to their regular schedule, i.e. sick time, vacation days, etc are also reported and entered.

Non-exempt

- Recording of actual time worked by non-exempt employees is documented by using a biweekly “time sheet” at most schools and departments. Each employee has a timesheet that tracks by day the hours worked by the employee. A monthly log is used for Substitute teachers with a sign in sheet designated for them.
- Any deviations to their regular schedule, i.e. sick time, vacation days, etc. are documented on the time sheet. These paid leave days are also required to be documented using a “Request for Leave of Absence” form that is filed with the Timekeeper at each school/department.

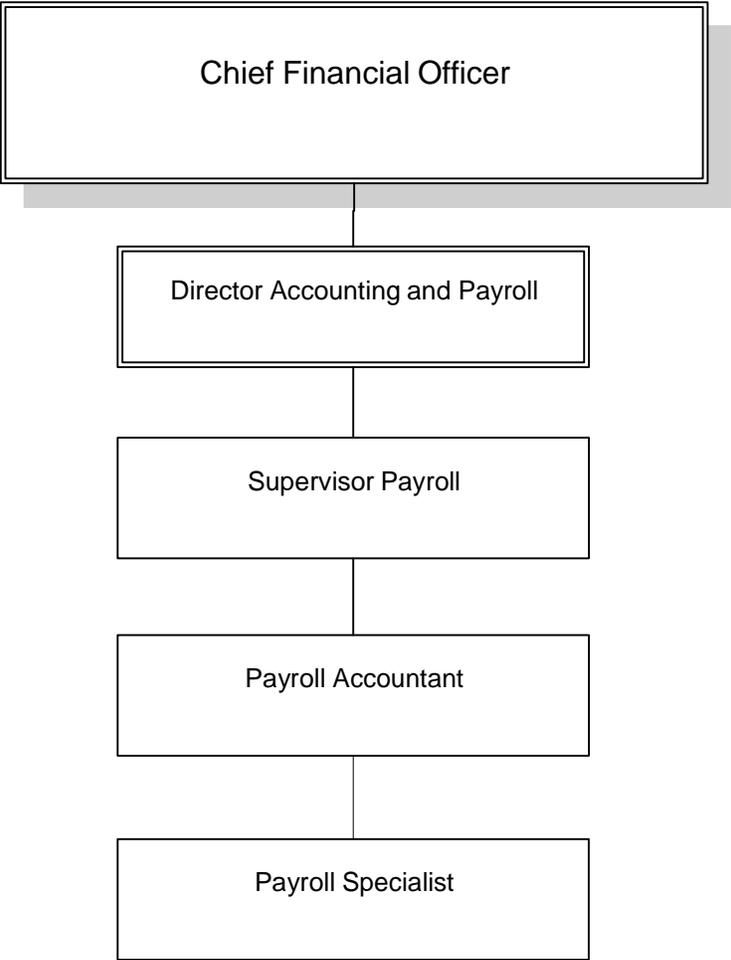
The SAMPLE’s payroll system pre-populates the employee’s hours based on the employee status (Full-time vs. Part-time). Thus, the designated timekeeper only accumulates documentation for payroll exceptions for all employees for that school or department to support the “Payroll Time Report,” generated by SAMPLE Payroll Department and sent to each school and department every pay period. Exceptions are those hours that differ from the employee’s normal schedule. This may include input of sick time, vacation days, personal time, etc. SAMPLE Payroll Specialists enter the exceptions into the time system and generate Payroll Edit List, which is self reviewed to ensure time has been posted accurately. Once reviewed, the SAMPLE processes the payroll. After the payroll processing, each school and department receives the employees’ respective live checks and/or check stubs from the SAMPLE’s payroll department. (See process map at the back of this report for a pictorial overview of this process).

Consistent with the risk identified in the risk assessment, our internal audit focused on timekeeping at schools and departments and not payroll processing by the SAMPLE. Accordingly, our objectives, approach and testing specifically target the timekeeping at the schools and departments as described in the following sections.

Background – continued

Timekeeping Process - continued

Currently the payroll department organization is as follows:



Objectives and Approach

Objectives and Approach

Objectives

Objectives of the current internal audit review of timekeeping include the following:

- ❑ Identify and assess the effectiveness of accounting, administrative and user access controls over timekeeping and reporting at the schools and departments.
- ❑ Validate that controls over timekeeping at schools and departments include procedures and documents that assure the data used to generate payroll disbursements are adequate.
- ❑ Identify differing practices for timekeeping at schools and departments and identify best practices for the timekeeping and reporting process.
- ❑ Determine that the records and documentation for timekeeping at schools and departments are sufficient to establish an audit trail for all transactions involving employees' time.

Approach

Our audit approach consisted of three phases:

Understanding and Documentation of the Process

During the first phase, we conducted interviews with responsible personnel at various schools and departments, who have responsibilities related to timekeeping and documented their role in the process. We also conducted interviews with payroll personnel at the SAMPLE to discuss the scope and objectives of the audit work and obtain preliminary data. In addition, we researched and reviewed the Fair Labor Standards Act and applicable SAMPLE Bylaws & Policies related to timekeeping. We reviewed the two Negotiated Agreements between the SAMPLE and the SAMPLE's Educational support Professional Association and the SAMPLE Education Association, noting union requirements and leave provisions. Our understanding of the process "As Is" and "Best Practices" is documented in "Process Maps" and are included as part of this report.

Detailed Testing

We selected four schools (2 middle schools and 2 elementary schools) and one department for the completion of our detailed testing. We also selected one department that is highly regarded for their timekeeping tracking process. The purpose of this phase was the execution of applicable tests of compliance and controls around time records and transactions for the schools and departments selected. Our fieldwork was conducted at the school and department sites where we utilized sampling and other auditing techniques as follows to meet our audit objectives outlined above:

- ❑ On-site visit and inquiry of school/department personnel to obtain detailed documentation of the process.
- ❑ Testing of employee time tracking methods, practices, documents and procedures.
- ❑ Testing of overtime approval, documentation and reporting where applicable.
- ❑ Test leave time tracking and approval process.
- ❑ Review tracking of substitute teachers.
- ❑ Review of forms utilized.

Reporting

At the conclusion of our audit, we summarized our findings related to timekeeping at the SAMPLE. We conducted an exit conference with the Chief Financial Officer, Director of Accounting and Payroll and the Payroll Supervisor. We have incorporated management's response into our report.

Issues Matrix

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Timekeeping System			
High	<p>1. Manual Timekeeping Process</p> <p>The SAMPLE does not have an automated timekeeping system in place to assist in efficient and accurate payroll processing. The SAMPLE currently utilizes Oracle for timekeeping and payroll processing, which entails the use of manual timesheets, manual sign offs from Administrators/Department Heads, manual key entry by payroll specialists and lack of available reporting for SAMPLE Management and Administrators/ Department.</p> <p><u>Workflow Inefficiency</u> The use of manual timekeeping system causes additional procedures, such as:</p> <ul style="list-style-type: none"> • Manual calculation of time by payroll clerk/administrator at the school or department; • Manual entry of time in the payroll system by the payroll clerk/timekeeper based on the manual timesheet; • Reconciliation and verification of data input into the payroll system from the timesheet including gross pay. <p><u>Manual Timekeeping Process Risks</u> Risks associated with the use of a manual timekeeping system include:</p> <ul style="list-style-type: none"> • Fraudulent time reporting outside of normal hours • Human error upon data entry • Processing of unauthorized employee time • Inefficient use of workforce productivity – manual steps; time spent interpreting unreadable timesheets; follow up on missing timesheets; recalculation of totals; and dealing with other irregularities in the source documents provided • Lack of audit trail • Exposure to compliance risk 	<p>We recommend that the SAMPLE implement solutions to automate timekeeping processing to enhance the collecting, processing and monitoring of SAMPLE employees' time, attendance and productivity. There will no longer be a need for manual key entry of exceptions by the Payroll Specialists, which will also enhance segregation of duties over payroll entry and processing.</p> <p>An automated timekeeping system will allow the SAMPLE to more accurately record time and thus generate useful statistics and trending to determine the hours needed to complete a given "job function". This information will be useful in staffing and budget planning. This type of analysis currently cannot be obtained given the current decentralization and manual intensity of the process. Additionally, under an automated system, it is less likely that employees would need to project time that has not been worked since time to physically transfer the time records to the SAMPLE would not be required.</p> <p>Furthermore, automated timekeeping systems are capable of tracking employee and time attendance through magnetically encoded identification badges that are scanned into the time keeping machines. The systems then calculate the number of hours worked each day by hourly employees and interfaces with the payroll modules. This increases the effectiveness and efficiency in time required for the Payroll department to process payroll.</p>	<p>The SAMPLE is currently in the process of implementing a new Enterprise Resource Planning (ERP) system which will significantly automate many of the business processes that are currently done manually. The system will decrease the data input necessary to process payroll, provide for automated workflow for the approval processes, and provide for automated workflow for the reporting/verification process.</p> <p>Owner: Chief Financial Officer</p> <p>ECD: June 2012</p>

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Timekeeping System			
High	1. Manual Timekeeping Process - continued	<u>Benefits of an Automated Timekeeping System</u>	
	<p>Overall, manual payroll processing increases the risk for potential costly errors and inaccuracies. The benefit to the SAMPLE of implementing an automated timekeeping process should provide cost savings by increasing workflow productivity and efficiencies and reducing the risk errors the timekeeping process.</p>	<p>Other notable benefits of an automated timekeeping system include the following:</p> <ul style="list-style-type: none"> • Environmentally friendly by reducing the amount of paper utilized, printing and distribution costs • Recording time immediately and accurately • Reducing risk of errors of recording and calculating employee time and leave of absence • Allowing staff real-time access to track and monitor leave of absences and ensure no overpayments • Applying applicable/appropriate pay rules and policies consistently to all employees including employees working more than one position in the SAMPLE, employees covered by union rules, hourly employees' overtime tracking, etc. • Providing audit trails for any adjustments or changes made to employee records • Providing relevant ad hoc management reports i.e. time and attendance, accruals, overtime, and employee data etc. • Proper budgeting and monitoring (budget vs. actual analysis) of funds across all areas as mandated by the SAMPLE • Allows employees to access their own time and attendance data and other personnel information in real time from personal computers • Assists with compliance with Federal Rules and Regulations: the US Fair Labor Standards Act (FLSA) by tracking weighted overtime and US Family Medical Leave Act (FMLA) requires a whole separate set of paperwork, documentation and monitoring procedures <p><i>Within each issue below, we identified recommendations for the current timekeeping system and recommendations if the SAMPLE implements an automated process.</i></p>	

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Segregation of Duties			
High	2. Segregation of Duties		
	<p>Appropriate segregation of duties should include separating authorizing, recording, and reconciling functions. These duties are typically owned by different departments.</p> <p>We reviewed the segregation of duties for the timekeeping function at the schools and the district and noted the following gaps:</p> <ul style="list-style-type: none"> • The Payroll Specialists input exceptions into Oracle and also performed the verification of the data they inputted. • At all five schools/departments visited, the Timekeepers were responsible for submitting the Payroll Time Report to the SAMPLE after the Principal signed the report. They have the opportunity to make changes that the Principal would not detect as there is no subsequent review at the school level. • At one school, the Timekeeper approved the timecards for three selected employees. • Payroll output reports are not submitted to the Administrator/Department Head for review. <p>Without the proper segregation of duties and user access surrounding timekeeping, errors, misappropriation of payroll funds or other types of irregularities could occur without being detected in a timely manner, if at all.</p>	<p><u>Recommendation for Current Timekeeping System</u></p> <p>We recommend that the SAMPLE implement the following steps as documented in the “Manual Best Practices Process Map” in the Appendix in order to ensure proper segregation of duties and user access within the Timekeeping process:</p> <ul style="list-style-type: none"> • Administrators/Department Heads should be actively reviewing their employee’s timesheets to the supporting documentation for accuracy and documenting by sign-off prior to forwarding time data for input as noted in the “Incomplete and Inaccurate Employee Timecards” Issue #3. • All time data input into the system by the Payroll Specialists should be reviewed and verified by an independent designated employee. This employee should complete all verification of time entry prior to payroll processing. Additionally, this person should have “view only” access to the timekeeping profile in Oracle. If an independent designated employee is not available, this review should be performed by the other Payroll Specialist that does not input exceptions for that respective school or department. • Payroll output reports of processed payroll should be sent from the SAMPLE to the school/department for formal review and approval with proper sign-off by the Administrator/Department Head and kept on file at the respective site as recommended in the “Insufficient and/or Lack of Payroll Time Report Input and Output Review” Issue #7. • The input of the Payroll Specialists’ time should be performed by someone independent of employee setup and payroll processing. • Access to timekeeping entry should be limited to persons independent of the employee setup and payroll processing. <p>Appropriate segregation and user access should be reviewed and monitored regularly, especially when there are job / function changes.</p>	<p>With the implementation of a new ERP system, the SAMPLE plans to incorporate the segregation of duties within the workflow process to ensure that the authorizing, recording, and reconciling processes are appropriately segregated.</p> <p>Owner: Chief Financial Officer</p> <p>ECD: June 2012</p>

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Segregation of Duties			
High	2. Segregation of Duties - continued	<p><u>Recommendation for Automated Timekeeping System</u> We recommend that the SAMPLE implement the following steps as documented in the “Automated Best Practices Process Map” in the Appendix in order to ensure proper segregation of duties and user access within the Timekeeping process:</p> <p><u>System Configuration</u></p> <ul style="list-style-type: none"> • The timekeeping system will provide a warning message to the respective employee that their total hours for that day exceeds their normal allotted hours upon daily time input by the respective employee. • Employees have individual user names and passwords in the timekeeping system. • Only the appropriate Administrators/ Department Heads have access to review and approve employees; time to supporting documentation for accuracy in the timekeeping system on a real time basis. Their access is driven by individual user IDs and passwords. • The system will not permit the Administrators/Department Heads to review and approve time in the timekeeping system, until the employee has approved and submitted their own time in the timekeeping system. • The system will not process employees’ payroll until it has been approved in the system by the Administrator/Department Head. 	

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Segregation of Duties			
High	2. Segregation of Duties - continued	<u>Exception Reporting/Monitoring</u>	
		<ul style="list-style-type: none"> • Weekly, each Administrator/Department Head should run exception reports of their employees that exceeded their daily normal allotted time to ensure that there is supporting documentation to substantiate any time deviations. • Payroll output exceptions reports of processed payroll should be sent from the SAMPLE to the school/department for formal review and approval with proper sign-off by the Administrator/Department Head and kept on file at the respective site as recommended in the ““Insufficient and/or Lack of Payroll Time Report Input and Output Review” Issue #7. 	

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Time Reporting Accuracy			
High	3. <i>Incomplete and Inaccurate Employee Timecards</i>		
	<p>Timesheets currently used at the schools and departments do not always offer accurate time records as the timesheets are manually completed and then manually input into the system.</p> <ul style="list-style-type: none"> • <i>Documented Review and Approval</i> – For two of the five selected schools/departments, 8 of 12 and 1 of 8 selected employee timecards were lacking documented review and approval by the Administrator/Department Head. • <i>Timeliness of Review and Approval</i> – <ul style="list-style-type: none"> ○ For the remaining three schools/departments that had documented Administrator/Department Head review and approval, we were unable to verify timeliness of 5 of 12, 1 of 12 and 1 of 12 for all three schools/departments as the date of approval was not documented. ○ Two of five schools/departments had 1 of 12 and 3 of 12 employee timecards with approvals dated after the timesheets were submitted to payroll. 	<p><u>Recommendation for Current Timekeeping System</u> We recommend the SAMPLE perform the following:</p> <ul style="list-style-type: none"> • Require hourly employees to sign-off on their timesheets/records for accuracy prior to the end of the payroll period and payroll processing. • Re-educate the Administrators/Department Heads of the importance of their review of employee timesheets to supporting documentation, including the documentation of their review and approval to ensure time is accurate and reasonable. • Require all schools/departments have a process in place to monitor time projections to real time worked and reporting of exceptions for the next payroll cycle. • All of the above approvals should be dated so that timeliness of sign off can be verified. <p>The above will help strengthen accountability to the employees and Administrators/Department Heads to help ensure accurate reporting of employee time. These critical controls should be incorporated into documented policies and procedures as recommended in Issue #9.</p> <p><u>Recommendation for Automated Timekeeping System</u></p> <ul style="list-style-type: none"> • The timekeeping system will require employees to approve their time reporting in the timekeeping system for accuracy in order for the Administrators/Department Heads to have the ability to review and approve in the timekeeping system. • Re-educate the Administrators/Department Heads of the importance of their review of employee timesheets to supporting documentation; including the documentation of their review and approval of supporting documentation ensure time is accurate and reasonable. 	<p>It is the SAMPLE's intent that this process is automated through the implementation of the new ERP system and that the review and approval process is appropriately workflowed through the system.</p> <p>In addition, with the implementation of the new system, the Payroll Department will provide training on the importance of timesheet accuracy and the approval process.</p> <p>Owner: Chief Financial Officer</p> <p>ECD: June 2012</p>

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Time Reporting Accuracy – continued			
High	3. <i>Incomplete and Inaccurate Employee Timecards - continued</i>		
	<ul style="list-style-type: none"> • <i>Accuracy of Employee Timecards –</i> <ul style="list-style-type: none"> ○ Of the 12 transportation employee timecards selected, one employee timecard included an incorrect annualized time figure, and one did not list an annualized time figure at all. ○ We noted one school had 1 of 8 inaccurate employee timecards in that it included more time than was actually worked. This can occur due to the premature completion of employee timecards. Employees must project their time for 1-2 days at the end of the period, due to time constraints around payroll processing. ○ In the Transportation department, during our recalculation of an employee’s timecard of the 12 employee timecards we recalculated, we noted that one employee was overpaid .25 hours. This overpayment was not detected in the Department Head’s review of the employee’s timecard. <p>Because of the manually intensive timekeeping process, the Administrator/Department Head’s review of the timesheets to supporting documentation is a key step in detecting erroneous time reporting and over/under payments caused by human error.</p>	<p>Inaccurate projection of time would no longer be a risk to the SAMPLE, as time would be reported and submitted on a real time basis.</p>	

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Time Reporting Accuracy – continued			
High	4. Overtime Reporting		
	<p>During our on-site field work, we reviewed procedures related to tracking overtime, which included discussions with various personnel at the schools. Based on these procedures, it was difficult to determine if all overtime for hourly employees were being captured as most schools did not have a process in place for employees to record time in and out.</p> <p>The following is how overtime should be accounted for with regard to classified employees at the school level:</p> <p>As noted from the Overtime Pay Requirements of the Fair Labor Standards Act “FLSA”– “The overtime requirement may not be waived by agreement between the employer and employees. An agreement that only 8 hours a day or only 40 hours a week will be counted as working time also fails the test of FLSA compliance. An announcement by the employer that no overtime work will be permitted, or that overtime work will not be paid for unless authorized in advance, also will not impair the employee’s right to compensation for compensable overtime hours that are worked.”</p> <p>During our on-site fieldwork, we reviewed procedures related to tracking overtime and compensatory time. SAMPLE policy is that employees are to be paid overtime for hours worked over 40. However, proper controls are not in place to ensure accurate reporting of overtime.</p>	<p><u>Recommendation for Current Timekeeping System</u> We recommend that the SAMPLE continue to engage their legal counsel to review the SAMPLE’s policies and procedures as they relate to the treatment of overtime for compliance with FLSA.</p> <p>The SAMPLE should also heighten the awareness of the overtime requirements to the Administrators and all SAMPLE employees. This could be accomplished by:</p> <ul style="list-style-type: none"> • Incorporating the importance of proper overtime reporting at an Administrators/Department Head meeting at the beginning of each school year by providing a training session on FLSA requirements and walking through various overtime reporting scenarios. • Circulating a memorandum specifying the overtime policy of the SAMPLE to all employees containing overtime specific FLSA and Union Agreement literature in order to ensure that the SAMPLE is properly recording all hours worked for hourly employees and authorizing/tracking compensatory time accordingly. • Have employees sign the overtime policy on an annual basis and keep it in their employee file to instill accountability. • Formalize the process of approving, documenting and tracking compensatory time awarded and taken by employees. The new policy should be circulated and added to training workshops to ensure the new process is thoroughly understood by all parties involved. 	<p>The SAMPLE will evaluate and revise their policies and procedures related to the treatment of overtime for compliance with FLSA, including the process of approving, documenting, and tracking compensatory time.</p> <p>In addition, the SAMPLE will heighten the awareness of overtime policies and procedures through formal and informal processes.</p> <p>Owner: Chief Financial Officer and Associate Superintendent of Human Resources</p> <p>ECD: June 2012</p>

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Time Reporting Accuracy – continued			
High	4. Overtime Reporting - continued		
	<p><u>Overtime Documentation and Pre-Approval</u> SAMPLE policy is that overtime must be pre-approved. We noted the following:</p> <ul style="list-style-type: none"> • Per discussion with the Transportation Department Head, they were unaware that documentation of the pre-approval for overtime was required. • All three transportation employees selected for testing were paid overtime and did not have pre-approval to work the overtime. • Supporting documentation of the overtime approval was lacking for two employees tested from the Transportation Department. <p>Administrators and classified employees may not fully comprehend the rules governing overtime, which could lead to non-compliance with the fair labor standards act and the union agreement.</p>	<p><u>Recommendation for Automated Timekeeping System</u> As compliance with FLSA is a risky area, the above recommendations would be the same. In addition, the timekeeping system would need to be configured to track and calculate overtime, even when an employee works two or more different jobs, weighted overtime and comply with the FLSA and other applicable legislation.</p>	

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Rating	Issues	Recommendation	Management Response
Time Reporting Accuracy – continued			
High	5. Compensatory Time		
	<p><u>Lack of Formal Policies Over Monitoring Compensatory Time</u> Compensatory time (or ‘comp’ time) is time that may be granted in lieu of overtime pay for hours worked in excess of forty hours each workweek.</p> <p>We noted that the teachers had an Optional Planning Day on August 18, 2009, which they could take off a day later in the year. Each school is tracking comp time differently. The SAMPLE did not have a formal policy for the schools to follow to document and monitor the Optional Planning Day awarded and taken by teachers.</p> <p><u>Maintenance of Records to Support Comp Time</u> FLSA requires that employers keep records on wages and hours (time). We noted that one of the schools visited does not track comp time for each of their employees using a tracking mechanism with a cumulative balance. Instead employees are on an “honor system” and are required to track their own comp time, but are not instructed to use any specified “standard” tracking mechanism.</p> <p>Thus, we were unable to verify if each employee effectively tracks their own comp time as the timekeeper is not required to validate compensatory hour(s) requested for use by the employee.</p> <p>This method is susceptible to inaccuracies that could lead to under/over use of comp time by an employee.</p>	<p><u>Recommendation for Current Timekeeping System</u> The SAMPLE should also heighten the awareness of granting and monitoring of comp time granted to the Administrators/Department Heads and all SAMPLE employees. This could be accomplished by formalizing the process of approving, documenting and tracking compensatory time awarded and taken by employees. The new policy should be circulated and added to training workshops to ensure the new process is thoroughly understood by all parties involved.</p> <p><u>Recommendation for Automated Timekeeping System</u> Automated timekeeping systems have the capability to track compensatory time as well.</p> <p>Weekly, each Administrator/Department Head should run exception reports of employees that exceeded their daily normal allotted time to ensure that the time is accurate and there is supporting documentation to substantiate any time deviations.</p>	<p>The SAMPLE will establish and implement a formal policy pertaining to the reporting and documenting of compensatory time earned and used, including the monitoring of the optional planning days awarded and taken by the teachers.</p> <p>Owner: Chief Financial Officer and Associate Superintendent of Human Resources</p> <p>ECD: August 2012</p>

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Time Reporting Accuracy – continued			
High	6. <i>Inadequate Tracking of Absent from Duty Leave</i>		
	<p>The SAMPLE's agreement with the Union (the SJEA Article VI, Section R) states that "absent from duty" leave may be taken up to two hours at a time, as long as the employee makes up the time within ten working days as approved by the principal. The SAMPLE's agreement states that if the "absent from duty leave" is not made up within ten working days, it will be charged to normal paid leave balances.</p> <p><u>Absent from Duty Leave Tracking and Approval</u> During our detailed testing we noted the following:</p> <ul style="list-style-type: none"> • One school does not keep records of absent from duty leave taken. The Timekeeper was not aware of the requirement to keep records over this process and there is no approval process in place. • Three of the four schools tested did not maintain documented approval of absent from duty leave taken. <p><u>Accrual / Use Method and Charge Off</u> We noted the following:</p> <ul style="list-style-type: none"> • One of the four schools did not keep records of absent from duty leave balances that were to be charged to normal leave balances. • Also, three of the four schools' Timekeepers were not aware of the ten-day make up period requirement of absent from duty leave. <p>Without proper controls in place to monitor absent from duty time, the SAMPLE could inadvertently pay employees for time not worked.</p>	<p><u>Recommendation for Current Timekeeping System</u> We recommend the SAMPLE formalize the process of approving, documenting and tracking absent from duty leave per the Union agreement. The tracking is to ensure time taken by employees was properly made up within 10 working days or leave with pay was utilized to cover the absent from duty leave taken. This new procedure should be circulated and added to training workshops to ensure the new process is thoroughly understood by all parties involved as recommended in the "Lack of Standardized Documented Procedures" Issue #9.</p> <p><u>Recommendation for Automated Timekeeping System</u> The above recommendation would be the same with the inclusion of the below exception reporting.</p> <p>All Administrator/Department Heads should review the system generated exception reporting available from the timekeeping system that reports the date and number of hours each employee was absent from duty. This report will facilitate the Administrator/Department Heads' ability to monitor and document that an employee's time was appropriately made up within 10 working days.</p>	<p>The SAMPLE will establish and implement formal policies and procedures for the tracking and monitoring of "absent from duty leave", as defined in the Union agreement, to ensure that the time is made up within ten days or leave is appropriately taken.</p> <p>In addition, the SAMPLE will circulate the new policies and provide appropriate training.</p> <p>Owner: Chief Financial Officer and Associate Superintendent of Human Resources</p> <p>ECD: June 2012</p>

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Time Reporting Accuracy – continued			
High	7. <i>Insufficient and/or Lack of Payroll Time Report Input and Output Review</i>		
	<p>The SAMPLE submits the “Payroll Time Report” to the schools/departments each pay period. The respective Timekeepers at the schools/departments manually write the employee exceptions on the payroll time report and attach the timesheets and supporting exception documentation. This may include input of sick time, vacation days, personal time, etc. The Administrators/Department Heads manually review and approve the payroll time report with supporting documentation. The Timekeepers submit the payroll time report with supporting documentation to the Payroll Department for key entry by the Payroll Specialists.</p> <p><u>Payroll Time Report Input Review</u> We noted the following:</p> <ul style="list-style-type: none"> The review of the time entered at the SAMPLE is not independent in that each Payroll Specialist reviews their own entries <p><u>Payroll Time Report Output Review</u></p> <ul style="list-style-type: none"> After payroll is processed for the pay period, payroll reports are not submitted to the schools/departments for review. <p>Without the proper review process, the SAMPLE payroll records could inadvertently contain errors which may not be properly detected within a timely manner.</p>	<p><u>Recommendation for Current Timekeeping System</u> We recommend that the SAMPLE perform the following:</p> <ul style="list-style-type: none"> Require that payroll time reports received from the SAMPLE be formally reviewed for reasonableness and approved with proper sign-off by the Administrator/ Department Head and kept on file at the respective site as recommended in Issues #3 and #4. All of the above approvals should be dated so that timeliness of sign off can be verified. The Payroll Specialists should review each others’ Payroll Edit Report prior to submission of the payroll time entries and formally sign-off as recommended in the “Segregation of Duties and User Access” Issue #2. . The payroll reports of processed payroll should be sent to the schools from the SAMPLE, formally reviewed for reasonableness and approved with proper sign-off by the principal /department head and kept on file at the school/department as recommended in the “Segregation of Duties and User Access” Issue #2. Any discrepancies identified from these reviews should be reported back to SAMPLE in a timely manner via a formal correction form. <p>This will improve the independence of the review of time entered and will aid in the identification of errors (if any) as identified in Issue #3.</p>	<p>The implementation of the new ERP system will eliminate the manual approval process. Automated timesheets will first be workflowed to the employee for verification, then to the Department Head for approval, and then to the Payroll Supervisor for upload and processing. The payroll specialists will verify the accuracy of the payroll information.</p> <p>In addition, processed payroll time reports will automatically be sent to Administrators/Department Heads and reviewed for reasonableness.</p> <p>Owner: Chief Financial Officer</p> <p>ECD: June 2012</p>

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Time Reporting Accuracy – continued			
High	7. Insufficient and/or Lack of Payroll Time Report Input and Output Review-continued	<p><u>Recommendation for Automated Timekeeping System</u></p> <ul style="list-style-type: none"> • The timekeeping system will require employees to approve their time reporting in the timekeeping system for accuracy in order for the Administrators/Department Heads to have the ability to review and approve in the timekeeping system. • Re-educate the Administrators/Department Heads of the importance of their review of employee timesheets to supporting documentation, including the documentation of their review and approval of supporting documentation to ensure time is accurate and reasonable. • Weekly, each Administrator/Department Head should run exception reports of their employees that exceeded their daily normal allotted time to ensure that there is supporting documentation to substantiate any time deviations. • At minimum, the payroll output exception reports of processed payroll should be sent to the schools from the SAMPLE, formally reviewed for reasonableness and approved with proper sign-off by the Administrator/Department Head and kept on file at the school/department as recommended in the “Segregation of Duties and User Access” Issue #2. • Any discrepancies identified from these reviews should be reported back to SAMPLE in a timely manner via a formal correction form. 	

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Timekeeping Procedures			
Moderate	8. <i>Incomplete Leave of Absence Forms</i>		
	<p>The SAMPLE currently requires that all requests for leave be submitted on the proper form and with approval of the employee's immediate administrative supervisor. Non-emergency leave should be pre-approved by the immediate supervisor.</p> <p>We noted the following inconsistencies:</p> <ul style="list-style-type: none"> Request for Leave of Absence Forms were not consistently pre-approved by the employee's supervisor for three of the five schools/departments tested. Timeliness of approval could not be verified for one of the five schools/departments tested as the date of review was not documented. One of the five schools/departments with a leave of absence requiring pre-approval was approved after the fact. One of the five schools/departments selected could not locate the leave of absence form for one employee sampled to substantiate an employee's absence. 	<p>The SAMPLE should heighten the awareness of the SAMPLE leave approval policies to employees with timekeeping responsibilities to ensure SAMPLE policy compliance by each school and department. This can be done by circulating the Leave related policies and adding them to training workshops to ensure the policies are thoroughly understood by all parties involved.</p>	<p>The SAMPLE will continue to inform employees of the importance of leave forms and the preapproval process.</p> <p>In addition, with the implementation of the new system, the SAMPLE plans to automate the leave process and send notifications to the timekeepers and Department Heads to alert them when an employee has already used leave that requires preapproval.</p> <p>Owner: Chief Financial Officer and Associate Superintendent of Human Resources</p> <p>ECD: June 2012</p>

ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Timekeeping Procedures - continued			
Moderate	9. Lack of Standardized Documented Procedures		
	<p>The Payroll Department has documented procedures for the timekeeping process at the SAMPLE level. Per inquiry with the schools/departments they are unaware of updated documented timekeeping policies and procedures. Formal, written procedures provide vital information to employees in the event of absences, employee turnover or other occurrences. These procedures would provide detailed instructions on routine functions, as well as any non-routine occurrences in order to help ensure consistency and compliance with SAMPLE policies and FLSA.</p> <p>The SAMPLE specifically lacks the following procedures that would improve overall timekeeping accuracy:</p> <ul style="list-style-type: none"> • Procedure to verify the completeness of absences reported by exempt employees. • Procedure to ensure projected time that an employee may not actually work is reversed from the subsequent payroll period's time records. <p>Due to the lack of standardized documented procedures and the de-centralized nature of the schools and departments, inconsistencies were noted in the timekeeping process from site to site causing many of the issues noted within this report which include the following:</p> <ul style="list-style-type: none"> • Lack of verification and review of time causing discrepancies in data input (Issue #3) • Inconsistent recording of overtime (Issue #4) • Inconsistent recording of time for exempt employees (Issue #10) 	<p>We recommend that standardized timekeeping procedures be created, documented in a manual and implemented across the SAMPLE. Once created, the standard process should be introduced by incorporating it into the SAMPLE's training offered to all timekeepers. This training should be mandated to all employees with timekeeping responsibilities; it should recur annually and be updated with any changes accordingly. Additionally, material from this annual training should be incorporated into the SAMPLE's current trainings held for smaller groups throughout the year.</p> <p>These standard procedures and training materials should incorporate best practices from across the SAMPLE and be posted on the intranet for the timekeepers' future reference throughout the year. This will assist in achieving consistent, standardized proper tracking and reporting of employee hours and ensure compliance with applicable SAMPLE policies, payroll laws and regulations.</p>	<p>The SAMPLE will establish and implement formal policies and procedures that will standardize all of the timekeeping procedures to provide for consistency across all schools and departments.</p> <p>Owner: Chief Financial Officer</p> <p>ECD: Ongoing</p>

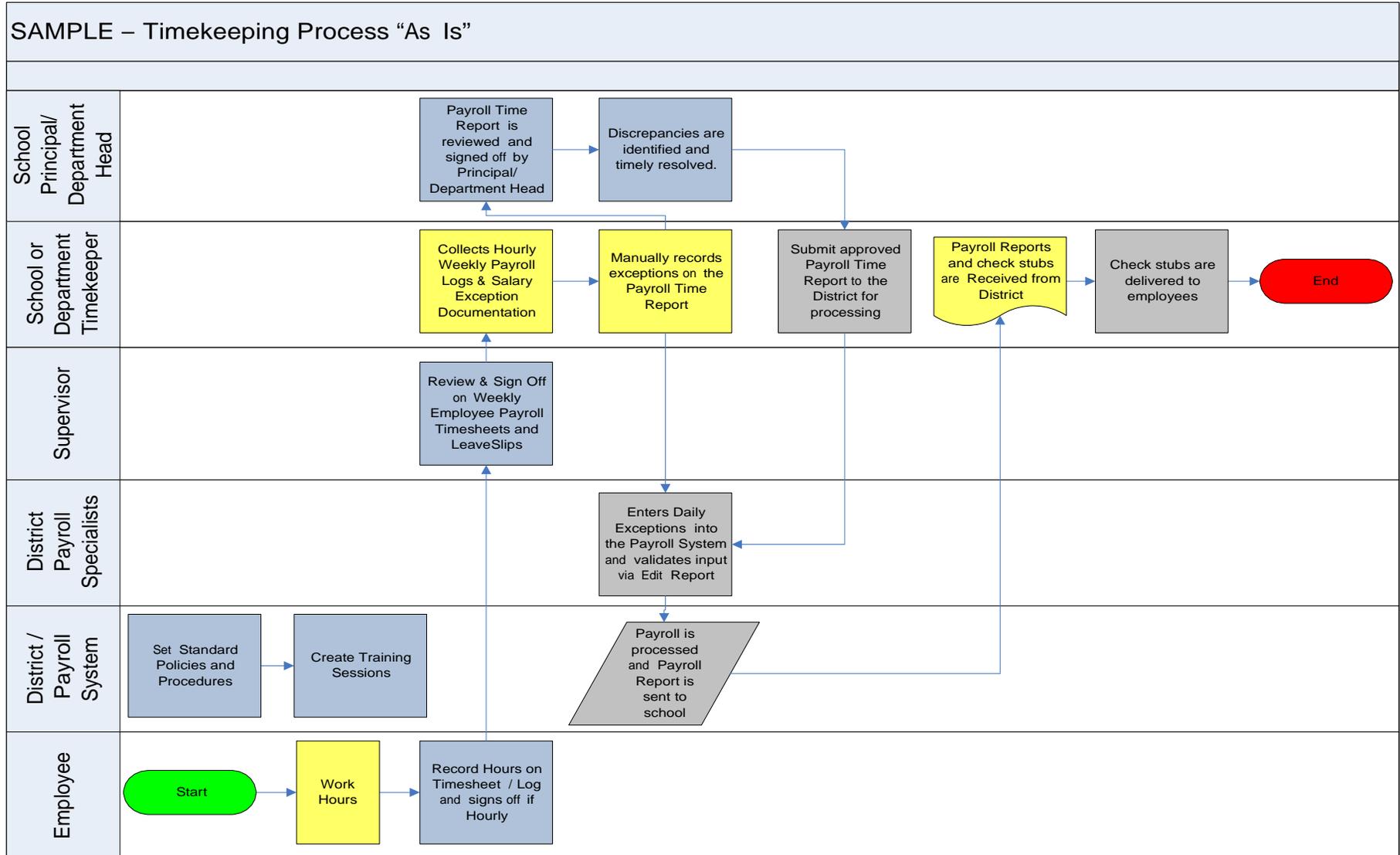
ISSUES MATRIX

Rating	Issues	Recommendation	Management Response
Timekeeping Procedures – continued			
Moderate	10 Inconsistent Timekeeping Procedures		
	<p>We noted during our detailed testing that there was not a consistent time recording process used across all of the five sites visited. Although there is a standard timesheet available for each SAMPLE school and department to use, there are currently a variety of mechanisms used to capture employment hours at each of the sites visited which may lead to inaccurate time reporting and process inefficiencies.</p> <p>The following are different mechanisms that were utilized at the five sites visited:</p> <p>Exempt employees</p> <ul style="list-style-type: none"> • Day calendars used to record teacher absences. • Substitute tracking log from the SmartFind system used to track teacher absences. • Leave of absence forms. <p>Based on discussions with the staff responsible for timekeeping at the schools and departments, a standard required time tracking mechanism has not been provided for their use. Thus, each school and department has designed their own time tracking system. All mechanisms reviewed are different in some respects which may cause inefficiencies and interruptions in the day to day timekeeping process in the event of timekeeper turnover.</p> <p>Without standardized policies, procedures and forms to capture employment hours, errors could occur and not be detected in a reasonable time period. Thus, causing over/under payment to employees. Additionally, standardization would help ensure compliance with applicable wage and hour laws, employment agreements and ensure appropriate recordkeeping as noted in Issue #3.</p>	<p><u>Recommendation for Current Timekeeping System</u> As previously recommended in Issue #7, standard timekeeping practices combined with adequate training sessions should be created and utilized by the entire SAMPLE for timekeeping. The following standard practices with respective trainings should be implemented at a minimum as it relates to timekeeping:</p> <p>Exempt employees</p> <ul style="list-style-type: none"> • All employees should be trained on how to report absences within the SmartFind system, whether they require a substitute or not. This will enable the Timekeeper to have a source population of absences to track receipt of Leave Approval forms to. The report can also be provided to the Principal of each school for review. • Leave of absence forms should be reconciled to the substitute sign-in/out sheets and SmartFind system records where applicable. <p><u>Recommendation for Automated Timekeeping System</u> The risk of inconsistent timekeeping procedures is greatly reduced as all time is tracked and monitored in an automated timekeeping system that the employee and Administrator/Department review and approve.</p>	<p>With the implementation of the new ERP system, the SAMPLE will standardize the method utilized for timekeeping to the extent practical.</p> <p>Owner: Chief Financial Officer</p> <p>ECD: June 2012</p>

Rating	Issues	Recommendation	Management Response
Recordkeeping			
High	11 Insufficient Recordkeeping for Non-Exempt Employees		
	<p>We noted during our detailed testing that there is currently insufficient recordkeeping of time records for non-exempt employees at the schools/departments selected. FLSA states that the employer must maintain the following records related to employee hours for non-exempt employees:</p> <ol style="list-style-type: none"> 1. Hours worked each day 2. Total hours worked each workweek <p>In addition it states, <i>“Many employees work on a fixed schedule from which they seldom vary. The employer may keep a record showing the exact schedule of daily and weekly hours and merely indicate that the worker did follow the schedule. When a worker is on the job for a longer or shorter period of time than the schedule shows, the employer must record the number of hours the worker actually worked, on an exception basis.”</i></p> <p>However, we noted that a log documenting the exceptions from the fixed schedule was not always documented in a formal record. The only documentation provided to the Timekeeper in most cases for non-exempt employees is the timesheet and supporting documentation for exception, eg. leave request forms for the period, which are then used to prepare and substantiate the Payroll Time Report. If a Leave of Absence Request form was not presented to the Timekeeper, the overall record (Payroll Time Report) would be inaccurate as there is no other source document where the non-exempt employees record their time.</p>	<p><u>Recommendation for Current Timekeeping System</u> We recommend the SAMPLE heighten the awareness of the FLSA requirements to the Administrators and employees responsible for timekeeping activities. This could be accomplished by providing a training session that dedicates time to FLSA compliance as it relates to the appropriate recordkeeping of time records.</p> <p><u>Recommendation for Automated Timekeeping System</u> The risk of insufficient recordkeeping is greatly reduced as all time is tracked and monitored in an automated timekeeping system that the employee and Administrator/Department review and approve.</p>	<p>The SAMPLE will heighten the awareness of FLSA requirements to administrators and employees for timekeeping and will continue to emphasize the importance of the completion and preapproval of leave forms.</p> <p>Owner: Chief Financial Officer and Associate Superintendent for Human Resources.</p> <p>ECD: Ongoing</p>

Appendix

APPENDIX A

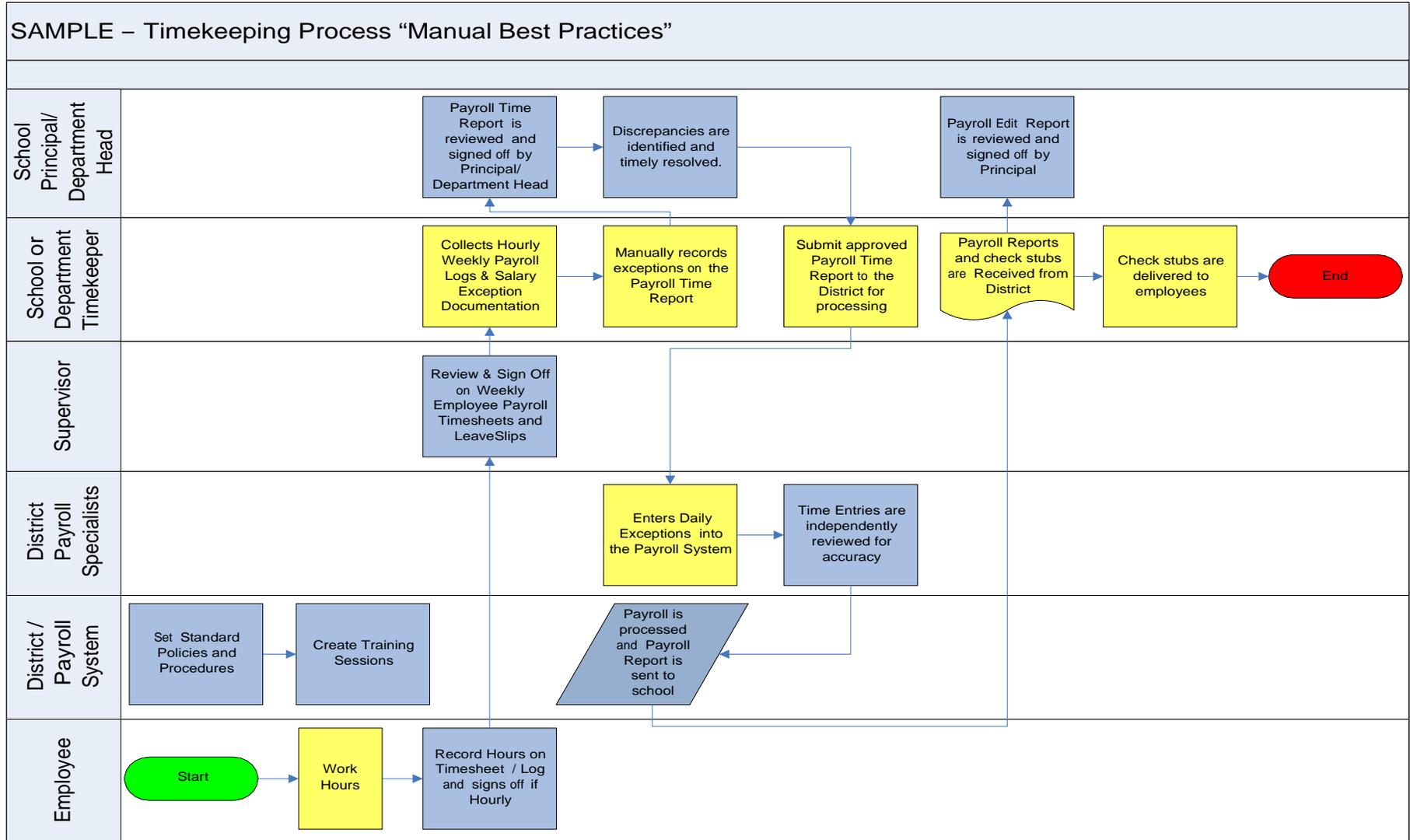


“Exceptions” are those hours that the employee does not work. For example, sick time, vacation, personal time. Since the system pre-populates the time based on the employee’s status (FT or PT) only the exceptions to the hours are entered.

Legend:

Process Step	Automated Control	Manual Control	Design Gap
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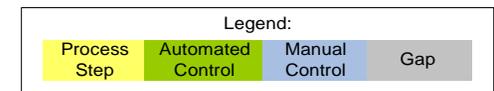
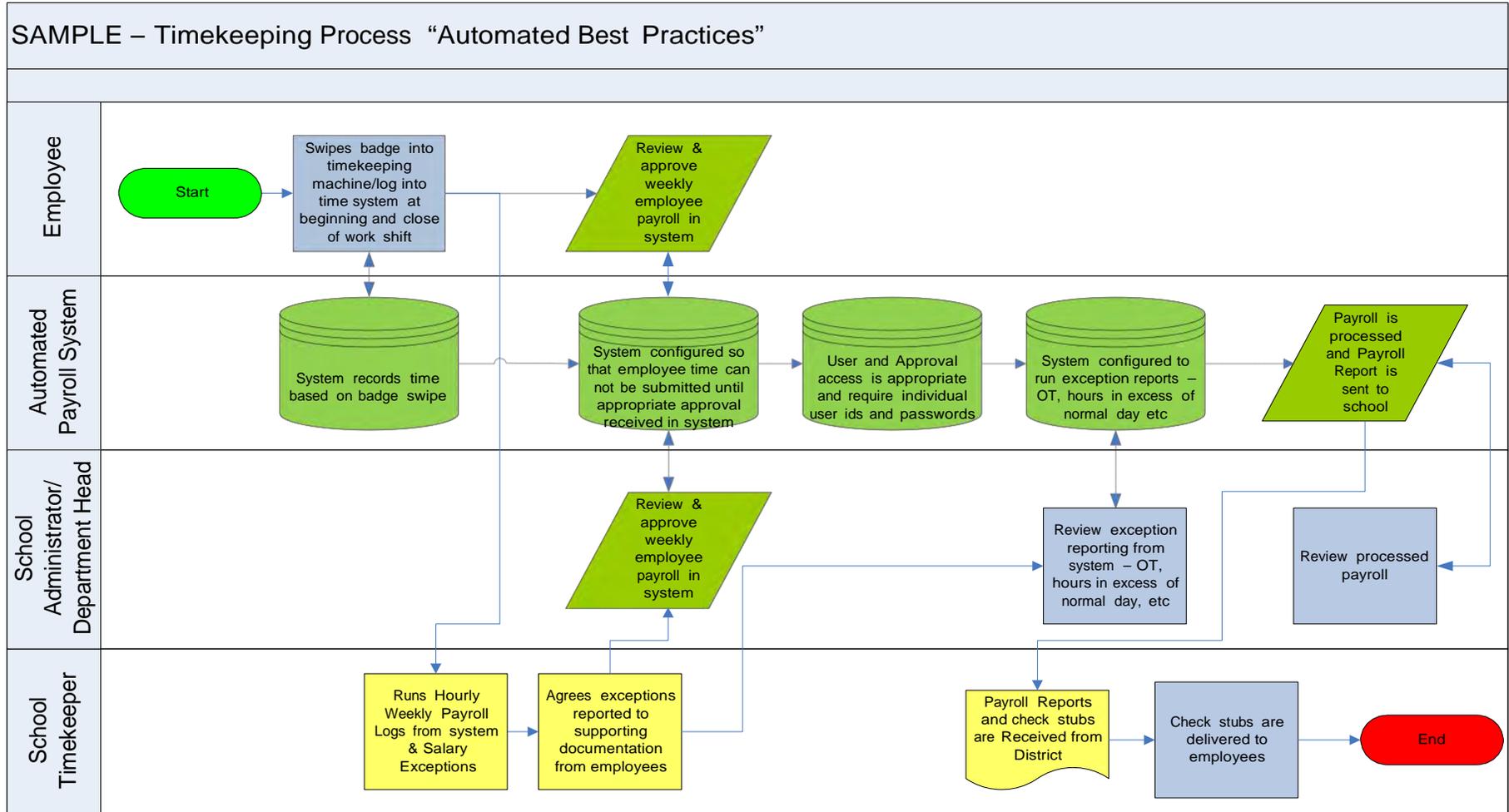
APPENDIX B



“Exceptions” are those hours that the employee does not work. For example, sick time, vacation, personal time. Since the system pre-populates the time based on the employee’s status (FT or PT) only the exceptions to the hours are entered.



APPENDIX C



APPENDIX D

February 16, 2010

SAMPLE
ADDRESS

Attention: Chief Financial Officer
Payroll Supervisor

Background

We were contacted by the SAMPLE to perform research related to treatment of time spent by nonexempt employees on jobs outside their primary job function. Thus, we specifically performed research to determine whether public employers are exempt from paying overtime for time their nonexempt employees spend serving as coaches (or other extracurricular roles) at SAMPLE schools. We also performed research to determine what amount of payment to these nonexempt employees would meet the definition of a "nominal" fee. In addition, we provided guidance on how to determine whether an individual is an employee or an independent contractor for payroll reporting purposes.

Our research was primarily performed within the Code of Federal Regulations ("C.F.R."), specifically Title 29 (Labor), Chapter V (Wage and Hour Division, Department of Labor) and Part 553 (Application of The Fair Labor Standards Act ("FLSA") to Employees of State and Local Governments). We also reviewed the United States Code ("U.S.C.") Title 29 Section 213 to obtain the Department of Labor's definition of "incidental" which it adopted to define a "nominal" fee. Our analysis of our research is in the analysis section of this letter.

Volunteer Status Analysis

FLSA Exemption: Title 29 C.F.R. Sec 553. 100-106 states that individuals may perform volunteer service hours for units of State and local governments without being considered to be their employees during such hours for purposes of the FLSA. Thus the employer is exempt from paying overtime or wages for such employees as long as the time is spent volunteering. The definition of what constitutes to be a volunteer is provided as follows.

Volunteer Defined: 29 C.F.R. 553.101 (a) states that an individual who performs hours of service for a public agency for civic, charitable, or humanitarian reasons, without promise, expectation or receipt of compensation for services rendered, is considered to be a volunteer during such hours. This includes all nonexempt employees who volunteer as coaches, gate keepers, club advisors, athletic events score keepers, etc.

29 C.F.R. 553.101 (c) states that individuals shall be considered volunteers only where their services are offered freely and without pressure or coercion, direct or implied, from an employer.

29 C.F.R. 553.101 (d) states that an individual shall not be considered a volunteer if the individual is otherwise employed by the same public agency to perform the same type of services as those for which the individual proposes to volunteer.

- o 29 C.F.R. 553.103 defines "same type of services" as similar or identical services. For example, a basketball coach cannot volunteer as the football coach. However, a basketball coach can volunteer as a club advisor.

APPENDIX D

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Payment for Services: 29 C.F.R. 553.106 states that volunteers may be paid expenses, reasonable benefits, a nominal fee, or any combination thereof, for their service without losing their status as volunteers.

- Expenses: 29 C.F.R. 553.106 (c) states that individuals would not lose their volunteer status because they are reimbursed for the approximate out of pocket expenses incurred incidental to providing volunteer services, for example, payment for the cost of meals and transportation expenses.
- Benefits: 29 C.F.R. 553 106 (d) states that individuals do not lose their volunteer status if they are provided reasonable benefits by a public agency for whom they perform volunteer services. Benefits include group insurance plans (such as liability, health, life, disability, workers' compensation) or pension plans or "length of service" awards.
- Nominal Fee: 29 C.F.R. 553 106 (e) states that individuals do not lose their volunteer status if they receive a nominal fee from a public agency. A nominal fee is not a substitute for compensation and must not be tied to productivity. For example, if a coach were paid more because the team won, the Department of Labor would consider such a "substitute for compensation" or "payment tied to productivity" because, in that instance the payment could be viewed as varying depending on the win-loss record of the team.

The Department of Labor will consider a fee to be nominal if the fee paid to the individual does not exceed 20 percent of what the public agency would otherwise pay to hire a full-time individual to perform the same services. The Department of Labor adopted the "occasional and incidental" definition as stated in Title 29 U.S.C. 213 (c)(6)(G) as the "20 percent" rule which should be used to make the determination of whether a fee is considered to be nominal. For example, if you would typically pay a full time coach \$35,930, which is the annual median wage for that position in the State of Florida per Bureau of Labor Statistics, a nominal fee would not exceed \$7,186 ($\$35,930 * 20\%$).

Volunteer Status Conclusion

Based upon our analysis above, but subject to the general conditions below, we believe that there is a reasonable basis for the position that a public employer is exempt from paying overtime rates for time their nonexempt employees spend serving as coaches (or other extracurricular roles) at SAMPLE schools as long as time is spent volunteering as described in our analysis. In addition, as long payment to the nonexempt employee is "nominal" as defined in our analysis, the volunteering status will not be compromised

APPENDIX D

February 16, 2010

Page Three

Employee versus Independent Contractor

Generally, an employee is any individual who performs services subject to the will and control of an employer, both as to what has to be done and how it is to be done. An independent contractor is any individual who renders services in the course of an independent occupation representing the will of his employer as to the result of his work and not as to the means by which it is accomplished. Payments made to employees are to be reported on a W2. Payments made to Independent Contractors are to be reported on a 1099 when the amount exceeds \$600 in a calendar year. In addition, an independent contractor who receives a 1099 may deduct all expenses incurred against the 1099 income in their personal tax return.

Scenario 1:

A nonexempt employee spends time serving as the cheerleading coach.

Treatment:

As this employee is already an employee of the SAMPLE, any supplemental reimbursement of expenses related to serving as the cheerleading coach should be included in that employee's W2. In addition, as long as payment to the nonexempt employee is "nominal" as defined in our analysis, the volunteering status will not be compromised.

Scenario 2:

An exempt employee spends time serving as the cheerleading coach.

Treatment:

Same as the treatment in scenario 1 above.

Scenario 3:

A local attorney serves as the high school coach.

Treatment:

This individual would be treated as an Independent Contractor. Thus, if payments in excess of \$600 are made to this individual for reimbursement of expenses during a calendar year, a 1099 should be issued. In addition, as long as payment to the nonexempt employee is "nominal" as defined in our analysis, the volunteering status will not be compromised.

Scenario 4:

Individuals serving as summer camp coaches

Treatment:

Due to the structure and schedules associated with summer camps, individuals should be treated as employees and payments made to them should be reported on a W2. As defined above, the individual serving as a summer camp coach would be subject to the will and control of an employer, both as to what has to be done and how it is to be done.

APPENDIX D

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Page Four

General Conditions

The analysis and conclusions expressed in this letter are subject to the following general conditions:

Applicable Law. Our analysis and conclusions relate solely to 29 C.F.R. Section 553.100-106 and 29 U.S.C. Section 213(c)(6)(G), all as of the date of this letter, and we have not addressed the tax consequences to you under any other Federal, state, local, or foreign tax law.

Changes in Law. Subsequent changes in the law, Code or applicable Treasury Regulations, or the issuance of new case or ruling authority, could materially and adversely affect our analysis and conclusions. Delivery of this letter is not an undertaking on our part to update this memorandum or advise you of any changes in law.

Issues Addressed. This letter is limited to an explanation of the law concerning the issues enumerated above, and it does not consider all of the issues that may arise in connection with time spent by nonexempt employees in extracurricular activities outside their primary job function. Our analysis and conclusions are limited to discussing the enumerated tax consequences to the addressee(s) arising from the amount of payment that may be given to a nonexempt employee who performs extracurricular functions outside his/her primary job function that would exempt the SAMPLE from treating that individual as an employee for that time for purposes of FLSA. It is possible that there may be alternative interpretation that offers more favorable tax consequences. This letter is not an endorsement of any particular method nor is it a recommendation that any addressee proceed with any method described in this memorandum.

No Guarantee. Our analysis and conclusions are based upon our interpretation of the applicable law, regulations, and certain case and ruling authority as of the date of this letter. Some of these matters are not free from doubt, and our analysis and conclusions are not binding on the IRS, any state, local, or foreign tax authority, or on any court. Our analysis and conclusions are based upon our professional judgment, and are not a guarantee of the ultimate tax consequences described in this letter.

Possibility of Litigation. If the IRS or another tax authority adopts a position contrary to the analysis and conclusions in this letter, it might be necessary to pursue administrative appeals or litigation. Decisions of whether and how to pursue administrative appeals or litigation may be based on considerations of cost, publicity, and other matters unrelated to the technical merits of a tax position.

Reliance. This letter is rendered only for the benefit of the named addressee(s), and does not address the tax consequences to any other person or entity that is not an addressee. No person or entity other than the named addressee(s) may rely on this letter.

Disclaimer of Legal and Investment Advice. This letter represents our conclusions and analysis concerning tax issues. It does not constitute legal or investment advice. We recommend that you retain competent legal counsel and investment advisers to address legal and investment issues

Respectfully Submitted,

Managing Director

**NEW JERSEY TRANSIT CORPORATION
REQUEST FOR PROPOSAL (RFP) NO. 14-033**

EXHIBIT 5 - ACKNOWLEDGEMENT OF RECEIPT OF ADDENDA

RFP NO. 14-033
ACKNOWLEDGMENT OF RECEIPT OF ADDENDA

Proposers are required to acknowledge receipt of all addenda issued prior to the proposal due date. This acknowledgment is made by the Proposer, if an individual; by a partner, if a partnership; or by an officer of the corporation, if a corporation.

The undersigned acknowledges receipt of the following addenda.

<u>Addendum Number</u>	<u>Date</u>
<u>1</u>	<u>March 20, 2014</u>
<u>2</u>	<u>March 27, 2014</u>
<u> </u>	<u> </u>

By: Robert L. Booney
Signature of Company Official

Director
Official's Title

McGladrey LLP
Company Name

**NEW JERSEY TRANSIT CORPORATION
REQUEST FOR PROPOSAL (RFP) NO. 14-033**

EXHIBIT 6 - NON-COLLUSION AFFIDAVIT

NON-COLLUSION AFFIDAVIT

STATE OF NEW JERSEY

ss:

COUNTY OF

I, **Robert G. Rooney** of the City of **New York**
in the County of **New York** and the State of **New York**
of full age, being duly sworn according to law on my oath depose and say that:

I am a Director
of the firm of **McGladrey LLP**
the bidder making the Proposal for the above named project, and that I executed the said Proposal with full authority so to do; that said bidder has not, directly or indirectly, entered into any agreement, participated in any collusion, or otherwise taken any action in restraint of free, competitive bidding in connection with the above named project; and that all statements contained in said Proposal and in this affidavit are true and correct, and made with full knowledge that the State of New Jersey relies upon the truth of the statements contained in said Proposal and in the statements contained in this affidavit in awarding the contract for the said project.

I further warrant that no person or selling agency has been employed or retained to solicit or secure such contract upon agreement or understanding for a commission, percentage, brokerage or contingent fee, except bona fide employees or bona fide established commercial or selling agencies maintained by McGladrey LLP

(Name of Contractor).

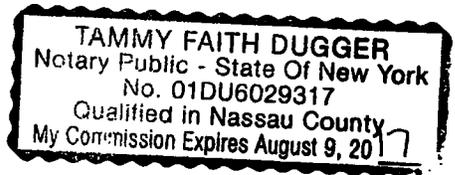

(Also type or print name of affiant under signature)
Robert G. Rooney

Subscribed and sworn to before me this
2nd day of April, 2014



Notary Public of

My commission expires 08/09 2017



**NEW JERSEY TRANSIT CORPORATION
REQUEST FOR PROPOSAL (RFP) NO. 14-033**

EXHIBIT 7 - INELIGIBLE CONTRACTORS CERTIFICATION

INELIGIBLE CONTRACTORS CERTIFICATE

The McGladrey LLP (Name of Contractor)

hereby certifies that it is not listed on the "Report of Suspensions, Debarments and Disqualifications of Firms and Individuals" published by the State of New Jersey Department of the Treasury in accordance with New Jersey Executive Order No. 34.

McGladrey LLP
Company

By: Robert G. Rooney

Robert G. Rooney
Name

Director
Title

1185 Avenue of the Americas
Address

Date: April 2, 2014

**NEW JERSEY TRANSIT CORPORATION
REQUEST FOR PROPOSAL (RFP) NO. 14-033**

EXHIBIT 8- AFFIDAVIT OF COMPLIANCE (CODE OF VENDOR ETHICS)



**IMPORTANT NOTICE
TO
ALL CONTRACTORS AND CONSULTANTS**

NJ TRANSIT is an instrumentality of the State of New Jersey and its employees and officers, including members of the NJ TRANSIT Board of Directors, are public servants. NJ TRANSIT, its employees and officers are governed by a number of civil and criminal laws which control how NJ TRANSIT and its personnel do business with contractors and consultants. These provisions include the Conflicts of Interest Law, N.J.S.A. 52:13D-12 and contain unequivocal and stringent restrictions relating to gifts and gratuities.

Be advised that the law prohibits the receipt of gifts and gratuities by any NJ TRANSIT employee or officer from any person, company or entity doing business - or wanting to do business - with NJ TRANSIT. Concomitantly, NJ TRANSIT's own Code of Ethics and Code of Ethics for Vendors, prohibits NJ TRANSIT employees from accepting gifts and prohibits you, the contractors and consultants, from offering any gifts to any NJ TRANSIT employee.

The term "gift" is broadly and widely defined. It includes all things and objects, tangible or intangible, including services, gratuities, meals, entertainment, tickets to events, access to membership clubs, travel costs, and lodging. Simply put, a "gift" is any thing of value.

Do not, under any circumstance, tempt or put an NJ TRANSIT employee in the awkward position of having to refuse a gift or return a gift, no matter how well intentioned or innocuous the gift may be in your eyes.

The bright line rule for you and your staff in doing business with NJ TRANSIT is simple: Offer nothing and give nothing to any NJ TRANSIT employee or officer. It is your responsibility to circulate this Notice in your company and educate accordingly all personnel who do business with NJ Transit.

52:13D-24. Solicitation, receipt or agreement to receive, thing of value for service related to official duties; exceptions

a. No State officer or employee, special State officer or employee, or member of the Legislature shall solicit, receive or agree to receive, whether directly or indirectly, any compensation, reward, employment, gift, honorarium, out-of-State travel or subsistence expense or other thing of value from any source other than the State of New Jersey, for any service, advice, assistance, appearance, speech or other matter related to the officer, employee, or member's official duties, except as authorized in this section.

b. A State officer or employee, special State officer or employee, or member of the Legislature may, in connection with any service, advice, assistance, appearance, speech or other matter related to the officer, employee, or member's official duties, solicit, receive or agree to receive, whether directly or indirectly, from sources other than the State, the following:

(1) reasonable fees for published books on matters within the officer, employee, or member's official duties;

(2) reimbursement or payment of actual and reasonable expenditures for travel or subsistence and allowable entertainment expenses associated with attending an event in New Jersey if expenditures for travel or subsistence and entertainment expenses are not paid for by the State of New Jersey;

(3) reimbursement or payment of actual and reasonable expenditures for travel or subsistence outside New Jersey, not to exceed \$500.00 per trip, if expenditures for travel or subsistence and entertainment expenses are not paid for by the State of New Jersey. The \$500 per trip limitation shall not apply if the reimbursement or payment is made by (a) a nonprofit organization of which the officer, employee, or member is, at the time of reimbursement or payment, an active member as a result of the payment of a fee or charge for membership to the organization by the State or the Legislature in the case of a member of the Legislature; or (b) a nonprofit organization that does not contract with the State to provide goods, materials, equipment, or services.

Members of the Legislature shall obtain the approval of the presiding officer of the member's House before accepting any reimbursement or payment of expenditures for travel or subsistence outside New Jersey.

As used in this subsection, "reasonable expenditures for travel or subsistence" means commercial travel rates directly to and from an event and food and lodging expenses which are moderate and neither elaborate nor excessive; and "allowable entertainment expenses" means the costs for a guest speaker, incidental music and other ancillary entertainment at any meal at an event, provided they are moderate and not elaborate or excessive, but does not include the costs of personal recreation, such as being a spectator at or engaging in a sporting or athletic activity which may occur as part of that event.

c. This section shall not apply to the solicitation or acceptance of contributions to the campaign of an announced candidate for elective public office, except that campaign contributions may not be accepted if they are known to be given in lieu of a payment prohibited pursuant to this section.

d. (1) Notwithstanding any other provision of law, a designated State officer as defined in paragraph (2) of this subsection shall not solicit, receive or agree to receive, whether directly or indirectly, any compensation, salary, honorarium, fee, or other form of income from any source, other than the compensation paid or reimbursed to him or her by the State for the performance of official duties, for any service, advice, assistance, appearance, speech or other matter, except for investment income from stocks, mutual funds, bonds, bank accounts, notes, a beneficial interest in a trust, financial compensation received as a result of prior employment or contractual relationships, and income from the disposition or rental of real property, or any other similar financial instrument and except for reimbursement for travel as authorized in subsections (2) and (3) of paragraph b. of this section. To receive such income, a designated State officer shall first seek review and approval by the Executive Commission on Ethical Standards to ensure that the receipt of such income does not violate the "New Jersey Conflicts of Interest Law," P.L.1971, c. 182 (C.52:13D-12 et seq.) or any applicable code of ethics, and does not undermine the full and diligent performance of the designated State officer's duties.

(2) For the purposes of this subsection, "designated State officer" shall include: the Governor, the Adjutant General, the Secretary of Agriculture, the Attorney General, the Commissioner of Banking and Insurance, the Secretary and Chief Executive Officer of the Commerce and Economic Growth Commission, the Commissioner of Community Affairs, the Commissioner of Corrections, the Commissioner of Education, the Commissioner of Environmental Protection, the Commissioner of Health and Senior Services, the Commissioner of Human Services, the Commissioner of Labor, the Commissioner of Personnel, the President of the State Board of Public Utilities, the Secretary of State, the Superintendent of State Police, the Commissioner of Transportation, the State Treasurer, the head of any other department in the Executive Branch, and the following members of the staff of the Office of the Governor: Chief of Staff, Chief of Management and Operations, Chief of Policy and Communications, Chief Counsel to the Governor, Director of Communications, Policy Counselor to the Governor, and any deputy or principal administrative assistant to any of the aforementioned members of the staff of the Office of the Governor listed in this subsection.

e. A violation of this section shall not constitute a crime or offense under the laws of this State.

52:13D-14. State officer or employee or member of legislature; acceptance of thing of value to influence public duties

No State officer or employee, special State officer or employee, or member of the Legislature shall accept from any person, whether directly or indirectly and whether by himself or through his spouse or any member of his family or through any partner or associate, any gift, favor, service, employment or offer of employment or any other thing of value which he knows or has reason to believe is offered to him with intent to influence him in the performance of his public duties and responsibilities. This section shall not apply to the acceptance of contributions to the campaign of an announced candidate for elective public office.

AFFIDAVIT OF COMPLIANCE

I, Robert G. Rooney (name of individual), executing this document on behalf of the undersigned company, partnership, corporation, or entity hereinafter referred to as "Contractor", presently seeking to do business with NJ TRANSIT by way of a Request for Proposals ("RFP") or Invitation for Bids ("IFB"), hereby warrant and affirm to NJ TRANSIT as follows:

1. I warrant and affirm that Contractor has received a copy of NJ TRANSIT's Code of Vendor Ethics and that I have read and studied this document and distributed this document to all of Contractor's personnel involved in seeking to do business with NJ TRANSIT and required said personnel to fully read this document. In addition, I further warrant and affirm that Contractor has received from NJ TRANSIT a document entitled "Important Notice to All Contractors and Consultants" and that I have read and studied this document, including the page setting forth various New Jersey statutory provisions, and that Contractor has distributed this document to all of Contractor's personnel involved in seeking to do business with NJ TRANSIT and required said personnel to fully read this document.

2. Contractor warrants and affirms that it has issued written instructions to all of Contractor's personnel involved in seeking to do business with NJ TRANSIT instructing and requiring same to strictly adhere to the Contractor's responsibilities as set forth in NJ TRANSIT's Code of Vendor Ethics and in the "Important Notice to All Contractors and Consultants".

3. Contractor warrants and affirms that during the bidding or proposal process for the contract with NJ TRANSIT, no gratuities or other inducements have been offered or given or will be offered or given in any form including gifts, gratuities, benefits, inducements, meals (other than *de minimis* valued snacks such as coffee, tea, soda, pretzels, cookies, or similar non-meal items), entertainment, or any other thing of value or favors of any kind to any member of NJ TRANSIT's Board of Directors, officer or employee of NJ TRANSIT.

4. The Contractor warrants and affirms that during the RFP or IFB process for the contract with NJ TRANSIT, Contractor has not and will not make any offers of employment to any member of the NJ TRANSIT Board of Directors, officer or employee directly involved with this contract or solicit or interview therefor, directly or indirectly, without first seeking and obtaining written approval from NJ TRANSIT's Ethics Liaison Officer.

5. The Contractor warrants and affirms that during the RFP or IFB process for the contract with NJ TRANSIT it has and shall promptly report in writing to NJ TRANSIT every instance that comes to the Contractor's attention and knowledge regarding any member of NJ TRANSIT's Board of Directors, officer or employee of NJ TRANSIT who has solicited or asked Contractor to provide gifts, gratuities, benefits, inducements, meals (other than *de minimis* valued snacks such as coffee, tea, soda, pretzels, cookies, or similar non-meal items), entertainment or any other thing of value or favors of any kind or has made any solicitation or request, directly or indirectly, for employment with or through the Contractor.

6. The Contractor acknowledges and accepts that for breach or violation of the foregoing warranties and affirmations, NJ TRANSIT shall have the discretion and legal right to disqualify Contractor from bidding or proposing for a contract between the Contractor and NJ TRANSIT.

McGladrey LLP

(Print Name of Contractor)



(Signature of Authorized Principal or Officer)

Robert G. Rooney

(Print Name and Title of Signator)

**NEW JERSEY TRANSIT CORPORATION
REQUEST FOR PROPOSAL (RFP) NO. 14-033**

**EXHIBIT 9 – CERTIFICATION OF CONTRACTS, GRANTS, LOANS &
COOPERATIVE AGREEMENTS**

NEW JERSEY TRANSIT CORPORATION

RFP NO. 14-033

**CERTIFICATION FOR CONTRACTS, GRANTS, LOANS
AND COOPERATIVE AGREEMENTS**

The undersigned certifies, to the best of his or her knowledge and belief, that:

(1) No Federal appropriated funds have been paid or will be paid, by or on behalf of the undersigned, to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with the awarding of any Federal Contract, the making of any Federal grant, the making of any Federal loan, the entering into of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any Federal Contract, grant, loan, or cooperative agreement.

(2) If any funds other than Federal appropriated funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with this Federal Contract, grant, loan, or cooperative agreement, the undersigned shall complete and submit "Disclosure of Lobbying Activities," in accordance with its instructions.

(3) The undersigned shall require that the language of this certification be included in the award documents for all subawards at all tiers (including subcontracts, subgrants, and contracts under grants, loans, and cooperative agreements) and that all subrecipients shall certify and disclose accordingly.

This certification is a material representation of fact upon which reliance was placed when this transaction was made or entered into. Submission of this certification is a prerequisite for making or entering into this transaction imposed by Section 1352, Title 31, U.S. Code. Any person who fails to file the required certification shall be subject to a civil penalty of not less than \$10,000 and not more than \$100,000 for each such failure.



Signature of Authorized Official

Robert G. Rooney

Print Name

Director

Title

McGladrey LLP

Firm

April 2, 2014

Date

**NEW JERSEY TRANSIT CORPORATION
REQUEST FOR PROPOSAL (RFP) NO. 14-033**

EXHIBIT 10 - OWNERSHIP DISCLOSURE

THIS FORM CONTAINS PERSONAL AND/OR PROPRIETARY COMMERCIAL
AND/OR FINANCIAL INFORMATION AND HAS BEEN REMOVED

**NEW JERSEY TRANSIT CORPORATION
REQUEST FOR PROPOSAL (RFP) NO. 14-033**

**EXHIBIT 11 - STATE OF NJ DIVISION OF PURCHASE AND
PROPERTY DISCLOSURE OF INVESTMENT ACTIVITIES IN IRAN**

STATE OF NEW JERSEY -- DIVISION OF PURCHASE AND PROPERTY
DISCLOSURE OF INVESTMENT ACTIVITIES IN IRAN

Quote Number: RFP No. 14-033 Bidder/Offeror: McGladrey LLP

PART 1: CERTIFICATION

BIDDERS MUST COMPLETE PART 1 BY CHECKING EITHER BOX.

FAILURE TO CHECK ONE OF THE BOXES WILL RENDER THE PROPOSAL NON-RESPONSIVE.

Pursuant to Public Law 2012, c. 25, any person or entity that submits a bid or proposal or otherwise proposes to enter into or renew a contract must complete the certification below to attest, under penalty of perjury, that neither the person or entity, nor any of its parents, subsidiaries, or affiliates, is identified on the Department of Treasury's Chapter 25 list as a person or entity engaging in investment activities in Iran. The Chapter 25 list is found on the Division's website at <http://www.state.nj.us/treasury/purchase/pdf/Chapter25List.pdf>. Bidders must review this list prior to completing the below certification. Failure to complete the certification will render a bidder's proposal non-responsive. If the Director finds a person or entity to be in violation of law, s/he shall take action as may be appropriate and provided by law, rule or contract, including but not limited to, imposing sanctions, seeking compliance, recovering damages, declaring the party in default and seeking debarment or suspension of the party.

PLEASE CHECK THE APPROPRIATE BOX:

I certify, pursuant to Public Law 2012, c. 25, that neither the bidder listed above nor any of the bidder's parents, subsidiaries, or affiliates is listed on the N.J. Department of the Treasury's list of entities determined to be engaged in prohibited activities in Iran pursuant to P.L. 2012, c. 25 ("Chapter 25 List"). I further certify that I am the person listed above, or I am an officer or representative of the entity listed above and am authorized to make this certification on its behalf. I will skip Part 2 and sign and complete the Certification below.

OR

I am unable to certify as above because the bidder and/or one or more of its parents, subsidiaries, or affiliates is listed on the Department's Chapter 25 list. I will provide a detailed, accurate and precise description of the activities in Part 2 below and sign and complete the Certification below. Failure to provide such will result in the proposal being rendered as non-responsive and appropriate penalties, fines and/or sanctions will be assessed as provided by law.

PART 2: PLEASE PROVIDE FURTHER INFORMATION RELATED TO INVESTMENT ACTIVITIES IN IRAN

You must provide a detailed, accurate and precise description of the activities of the bidding person/entity, or one of its parents, subsidiaries or affiliates, engaging in the investment activities in Iran outlined above by completing the boxes below.

EACH BOX WILL PROMPT YOU TO PROVIDE INFORMATION RELATIVE TO THE ABOVE QUESTIONS. PLEASE PROVIDE THOROUGH ANSWERS TO EACH QUESTION. IF YOU NEED TO MAKE ADDITIONAL ENTRIES, CLICK THE "ADD AN ADDITIONAL ACTIVITIES ENTRY" BUTTON.

Name _____	Relationship to Bidder/Offeror _____
Description of Activities _____	

Duration of Engagement _____	Anticipated Cessation Date _____
Bidder/Offeror Contact Name _____	Contact Phone Number _____

ADD AN ADDITIONAL ACTIVITIES ENTRY

Certification: I, being duly sworn upon my oath, hereby represent and state that the foregoing information and any attachments thereto to the best of my knowledge are true and complete. I attest that I am authorized to execute this certification on behalf of the above-referenced person or entity. I acknowledge that the State of New Jersey is relying on the information contained herein and thereby acknowledge that I am under a continuing obligation from the date of this certification through the completion of any contracts with the State to notify the State in writing of any changes to the answers of information contained herein. I acknowledge that I am aware that it is a criminal offense to make a false statement or misrepresentation in this certification, and if I do so, I recognize that I am subject to criminal prosecution under the law and that it will also constitute a material breach of my agreement(s) with the State of New Jersey and that the State at its option may declare any contract(s) resulting from this certification void and unenforceable.

Full Name (Print): Robert G. Rooney

Signature: 

Title: Director

Date: April 2, 2014

**NEW JERSEY TRANSIT CORPORATION
REQUEST FOR PROPOSAL (RFP) NO. 14-033**

EXHIBIT 12 – SOURCE DISCLOSURE CERTIFICATION

N.J.S.A 52:34-13.2 CERTIFICATION

SOURCE DISCLOSURE CERTIFICATION FORM

Consultant: McGladrey LLP

Contract Number: RFP No. 14-033

I hereby certify and say:

I have personal knowledge of the facts set forth herein and am authorized to make this Certification on behalf of the Consultant.

The Consultant submits this Certification as part of its proposal in response to the referenced solicitation issued by NJ TRANSIT, in accordance with the requirements of N.J.S.A. 52:34-13.2.

The following is a list of every location where services will be performed by the consultant and all subconsultants.

<u>Consultant or Subconsultant</u>	<u>Description of Services</u>	<u>Performance Location[s] by Country</u>
McGladrey LLP		United States

Any changes to the information set forth in this Certification during the term of any contract awarded under the referenced solicitation or extension thereof will be immediately reported by the Consultant to the Director of Contracts, NJ TRANSIT Corporation, One Penn Plaza East, Newark, NJ 07105.

I understand that, after award of a contract to the Consultant, it is determined that the Consultant has shifted services declared above to be provided within the United States to sources outside the United States prior to a written determination by the Contracting Officer, that the services can not be performed in the United States, the Consultant shall be deemed in breach of contract, which contract will be subject to termination for cause pursuant to Article 14 of the Professional Services Agreement.

I further understand that this Certification is submitted on behalf of the Consultant in order to induce NJ TRANSIT to accept a proposal, with knowledge that NJ TRANSIT is relying upon the truth of the statements contained herein.

I certify that, to the best of my knowledge and belief, the foregoing statements by me are true. I am aware that if any of the statements are willfully false, I am subject to punishment.

Consultant: McGladrey LLP

[Name of Organization or Entity]

By: Robert G. Rooney

Title: Director

Print Name: Robert G. Rooney

Date: April 2, 2014



NEW JERSEY TRANSIT CORPORATION

Proposal to Provide Superstorm Sandy Recovery and Resiliency
Oversight Monitoring Services

Cost Proposal

Response to RFP Number: 14-033

April 3, 2014





April 3, 2014

New Jersey Transit Corporation
One Penn Plaza
Newark, NJ 07105-2246

Dear Selection Committee Members:

McGladrey LLP is pleased to submit our proposal to assist the New Jersey Transit Corporation (NJ Transit) with Superstorm Sandy Recovery and Resiliency Integrity Oversight Monitoring Services.

Our goal is to provide high-quality service at reasonable fees. We have included our hourly rates on Attachment C-Cost Proposal Format for Years 1, 2 and 3 as requested.

We are enthusiastic about the prospect of helping NJ Transit with your integrity monitoring needs. We look forward to your review of our proposal and encourage you to contact us during the selection process. You may reach Pat at 312.634.3981 or patrick.hagan@mcgladrey or Bob at 908.208.9787 or robert.rooney@mcgladrey.com.

Thank you for considering McGladrey.

Sincerely,
McGladrey LLP

A handwritten signature in black ink that reads 'Patrick J. Hagan'.

Patrick J. Hagan
Partner, National State and Local Government Leader

A handwritten signature in black ink that reads 'Robert G. Rooney'.

Robert G. Rooney
Assurance Director

Staffing Category	Year 1			Year 2			Year 3		
	Estimated Staff Hours	Rates	Cost	Estimated Staff Hours	Rates	Cost	Estimated Staff Hours	Rates	Cost
Partner/Principal/Director	200	\$245	\$49,000	200	\$255	\$51,000	200	\$265	\$53,000
Program Manager / Project Manager	1,800	175	315,000	2,700	182	491,400	3,600	189	680,400
Subject Matter Expert	3,600	245	882,000	4,000	255	1,020,000	5,500	265	1,457,500
Supervisor/Senior Consultant/	3,600	135	486,000	6,000	140	840,000	8,500	146	1,241,000
Consultant/Associate/Staff	7,200	110	792,000	12,000	114	1,368,000	17,000	119	2,023,000
Administrative Support	1,800	80	144,000	1,800	83	149,400	1,800	86	154,800
Total	18,200		\$2,668,000	26,700		\$3,919,800	36,600		\$5,609,700

Total Cost Years 1-3 \$12,197,500

Travel allowances for all contracts for all Consultants are

Year 1: \$ 75,000
Year 2: \$130,000
Year 3: \$175,000
Total: \$380,000

Contract Terms and Conditions of Contract

We (Consultant) have reviewed the Request for Proposal (RFP) #14-033 issued by NJ TRANSIT for Integrity Oversight Monitoring Services for the Superstorm Sandy Recovery and Resiliency Program dated March 13, 2014 as well as the associated attachments and exhibits including NJ TRANSIT's Professional Services Agreement which includes the terms and conditions (Terms and Conditions) expected to be incorporated into a final negotiated Agreement ("Agreement").

Except as indicated below, we are prepared to accept the Agreement terms and conditions. If NJ TRANSIT selects us based upon our response to the RFP, we would seek to negotiate in good faith modifications, additions, or clarifications of the Agreement in the areas discussed below. Given our experience in contracting with State agencies and organizations like NJ TRANSIT, we are confident that we can reach an agreement with you on these issues. Notwithstanding anything to the contrary contained in the RFQ or this response thereto, our obligation to perform any services is contingent upon the execution by both parties of a definitive agreement.

Exhibit 1 NJ TRANSIT's Professional Services Agreement

2. COMPENSATION: We would request modification to this and other contract provisions to reflect that this contract will be issued on a time and direct expense basis as provided by the RFQ, and is not a cost reimbursable contract.

10. INDEMNIFICATION: We would request modification to the provision to limit our obligations to claims brought by third parties. Further, we would request the addition of language providing that our total liability, except for our indemnification obligations, be limited to an amount equal to the fees we receive under the Agreement, and exclude indirect, consequential or similar such damages.

11. INSURANCE: We would request minor modifications to meet the coverages requested in the contract through a combination of primary and excess coverage and will request clarifications and modifications to the terms that would be typical for larger firms with sophisticated risk management programs, such as notice requirements for cancellation or material change (to be provided by Consultant, and for additional insured endorsements (through blanket endorsements). We will request approval of professional liability insurance deductibles in excess of \$50,000. Given the nature of our Services, we would request that the requirement for pollution, environmental impairment, and Railroad Protective insurance requirements be waived.

12. AUDIT AND INSPECTION OF RECORDS: We would request language clarifying that references to inspection of payroll records shall be limited solely to our time and billing records for services performed under the Agreement.

38, 39, 43, 44, 46, 51 (and any other similar provisions). We would request that these provisions be deleted as not relevant to the contemplated services.