



**New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor**

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**Department of Agriculture**

July 1, 1999 to July 31, 2001

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**Richard L. Fair  
State Auditor**

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# New Jersey State Legislature

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The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of Agriculture for the period July 1, 1999 to July 31, 2001.

If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in black ink, appearing to read "Richard L. Fair".

Richard L. Fair  
State Auditor

November 5, 2001

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## Department of Agriculture

### *Scope*

We have completed an audit of the Department of Agriculture for the period July 1, 1999 to July 31, 2001. Our audit included financial activities accounted for in the state's General Fund.

Total expenditures of the agency were \$511 million during the audit period. The prime responsibility of the Department of Agriculture is to protect, develop, promote, conserve and support the agricultural and agribusiness industry of the state. Revenues of the agency totaled \$387 million during the audit period. The major component of revenue was the Child Nutrition Program which totaled \$325 million.

### *Objectives*

The objectives of our audit were to determine whether financial transactions were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of significant conditions reported in our prior report.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

### *Methodology*

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and tests of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were systematically and judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the agency and walked through the system to determine if the corrective action was effective.

*Conclusions*

We found that the financial transactions included in our testing were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management's attention.

We also found that the agency has resolved the significant issues noted in our prior report.

## Food Distribution Processing System

**The department should establish sufficient project monitoring and consider using allowable retainage provisions.**

New Jersey Department of Agriculture (NJDA) Food Distribution Processing System (FDP) was upgraded from an IBM System 36 platform to a relational database management system using Oracle's Referential Integrity capabilities. The contract started in 1997 and final payment was August 2000.

FDP's System 36 application was outdated and in need of necessary improvement to control accountability and costs, increase service and efficiency, and to make the application Y2K compliant. This system serves over 800 recipient agencies and school districts on a monthly basis. A contract was awarded under the provisions of a term contract.

NJDA's Request for Proposal (RFP) required the contractor to propose program improvements. These program improvements were to include an independent perspective in making data processing recommendations, functional enhancements, and any new technologies that optimize the application such as forms, design, copies, scanning and electronic data transmission. Additional program improvements were to include, but were not limited to:

- a perpetual inventory system,
- flexibility in the application,
- enhanced capabilities over the existing system,
- reduced manual labor and paper,
- a methodology of implementation which includes the users, and
- year 2000 compliance.

According to Control Objectives for Information and Related Technology (CoBiT), Delivery & Support statement DS2, control over the IT process of managing third-party services is enabled by control measures aimed at the review and monitoring of existing contracts and procedures for their effectiveness and compliance with organization policy. Control takes into consideration third party service agreements, non-disclosure agreements, legal and regulatory requirements, and service delivery monitoring. Paragraph 7.3 of the award notification states that payment will be made monthly based on the state's acceptance and approval of the work performed. In addition, ten percent of the fixed price could be withheld until satisfactory delivery and acceptance of the completed project. Also, cost overruns would not be recognized and non-project orders would be paid based on the actual hours worked. Furthermore, ten percent of the approved invoice could be withheld until satisfactory delivery and acceptance of the work.

NJDA did not adequately monitor the project. The vendor did not complete the deliverables specified in NJDA's RFP or their Notification of Award. The system is not fully functional. A manual system is still maintained to provide accurate inventory balances, the FDP cannot generate reports, there is no electronic data transmission from the over 800 users, there is no system documentation detailing file layouts or code provided by the vendor, and support is very limited since the original programmers of the FDP system have discontinued employment with the vendor. Based on these failures, the NJDA should have held the final ten percent payment until they were satisfied that all deliverables were met.

The vendor's failure to provide all deliverables of the FDP application has forced employees to maintain a manual inventory system alongside of the perpetual inventory system for accurate inventory balances, and has its users mailing or faxing orders instead of interfacing with the agency via the internet.

***Recommendation***

We recommend the department consider filing a complaint with the Division of Purchase and Property disclosing the contractual violations by the vendor. We further recommend that the department notify the Attorney General's Office for legal indemnification from the vendor. In addition, the department should establish sufficient project monitoring and utilize final payment withholding provisions in any future contracts.

***Auditee's Response***

The department agrees that contract monitoring and tracking must be strengthened. Accordingly, this department will be developing improved procedures in this regard.

However, the department marginally disagrees with the findings relative to its dealings with the vendor.

The department did in fact, follow the terms of paragraph 7.3 of the award notification in that monthly payments were made based on the Food Distribution Section's (FDS) acceptance of the work performed. These payments were made only after each system segment successfully completed and passed its "test" and "real time run" phases. In several instances, system failures were noted with individual system segments three to four weeks after successfully being tested and ran. After these system failures appeared the FDS and Division of Markets management met with the vendor to discuss the department's dissatisfaction, and develop a plan to address contract compliance, and future payments. With the concurrence of the department's Division of Administration and the Office of Information Technology, FDS informed the vendor that final payments for services performed during Phases I and II of the project would be withheld pending the successful testing of the system.

The vendor agreed, made the necessary system adjustments and successfully tested the system. FDS then approved the final payment that was previously withheld.

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After several weeks, new system problems and deficiencies became apparent.

The auditors contention that there is no data transmission to the over 800 users is misleading. Electronic data transmission to FDS clients was never part of the original award specification. Rather, this was a matter for future system enhancement.

To provide for system enhancements as well as to provide for day to day maintenance, the Food Distribution program is in the process of hiring a full time programmer.



### **System Overpayments**

**C**ontract terms should not be altered without required approvals.

The FDP contracted with a vendor for a new computer system. The original contract price for this project of \$340,000 was approved by the state's Office of Information Technology (OIT). Final costs exceeded the original contract by \$126,000. These additional costs were not part of the original RFP. Contract provisions should not be altered without additional approvals from OIT.

#### ***Recommendation***

We recommend that future contracts entered into by the department require approvals for additional enhancements.

#### ***Auditee's Response***

The department agrees that \$126,000 in costs were not part of the original RFP. However, these added contract enhancements were undertaken only after review and approval of the Office of Information Technology and the Purchase Bureau, Department of Treasury.



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## Human Resources Operations

Management is responsible for establishing internal controls that safeguard assets from loss or unauthorized use. Segregation of duties is an essential element of internal control. The work of each employee should be reviewed by another employee.

Our review of Human Resources revealed two deficiencies which could lead to inaccurate employee time records and unauthorized changes to the payroll records. Timekeepers post their own attendance records to the Time and Leave Reporting System (TALRS). Although our review found no discrepancies in the timekeepers' leave records, this practice should be changed. Also, the biweekly payroll proof and certification is approved and returned to the same employee who prepares the documents before it is forwarded to Centralized Payroll for processing. This practice allows the individual to make changes after approval. Alterations could go undetected. In addition, bi-weekly paychecks are delivered to this section for distribution.

**C**ontrols within the Department's timekeeping and payroll processing operations need to be strengthened.

*Recommendation*

We recommend that management assign the timekeepers attendance records to another employee and discontinue the practice of returning the approved payroll proof to the preparer. Instead, the proof should be sent directly to Centralized Payroll by the certifying officer. Furthermore, paychecks should be delivered to and distributed by an employee not involved in the payroll preparation.

*Auditee's Response*

The department agrees and has assigned timekeepers' attendance records to another employee and no longer returns approved payrolls to the preparer.

