



**STATE OF NEW JERSEY
OFFICE OF THE STATE COMPTROLLER**

IRVINGTON TOWNSHIP

**A PERFORMANCE AUDIT OF
FINANCIAL MANAGEMENT PRACTICES**

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COMPTROLLER**

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BACKGROUND

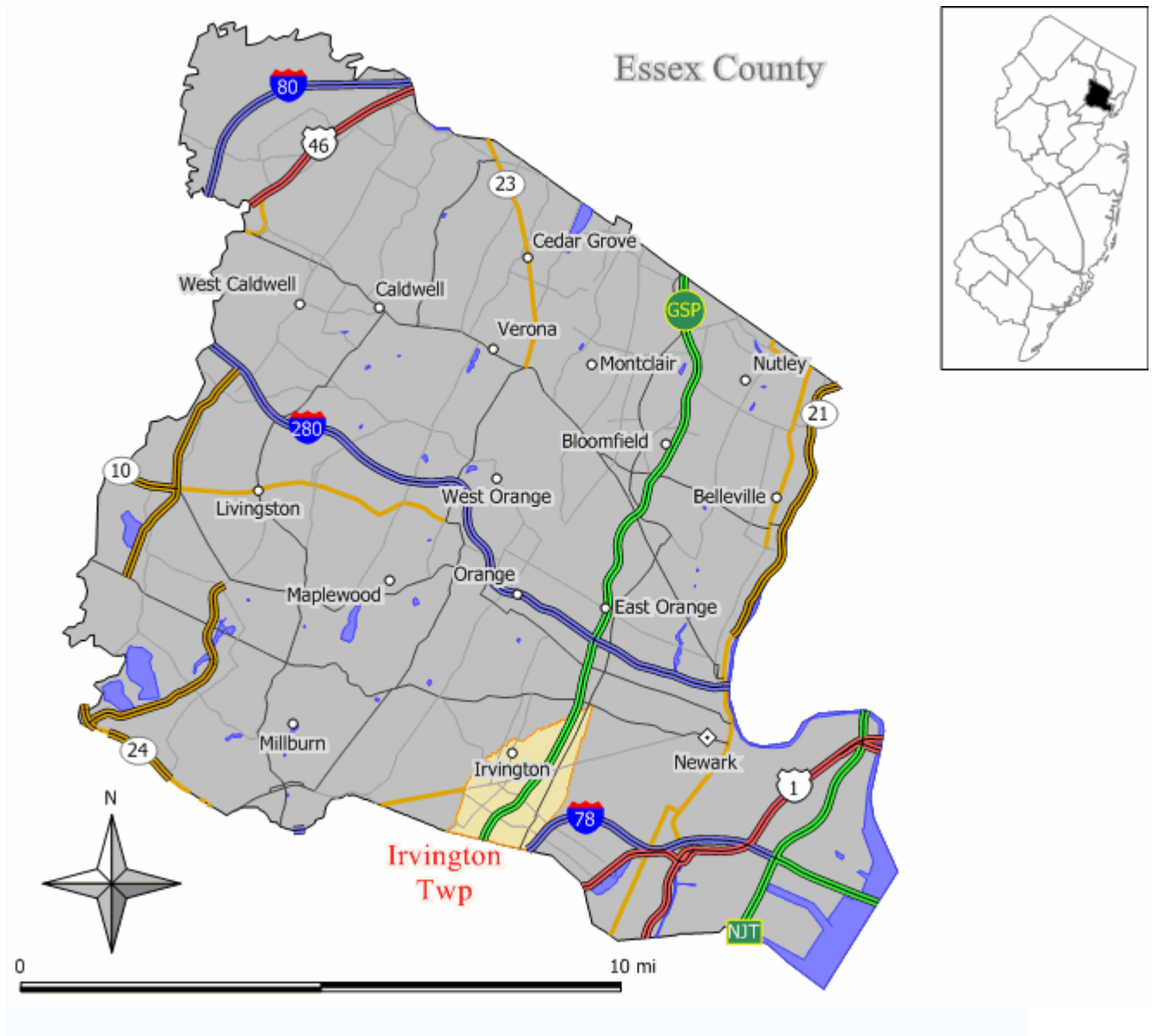
Irvington Township (Irvington) was incorporated as an independent village on March 27, 1874, and became a township on March 5, 1902. As of the 2000 census, there were 60,695 residents and 22,032 households in Irvington.

Irvington is governed under the Faulkner Act/Mayor-Council form of municipal government. As chief executive of Irvington, the Mayor, who is elected for a four-year term, is responsible for enforcing all ordinances and charter provisions, and for preparing the municipal budget in anticipation of review by the Council. The Mayor is not required to attend Council meetings and has no voting rights.

The Council is comprised of seven members. Four members are elected from wards and three are elected at-large. Members of the Council are elected for four-year terms. Terms are staggered bi-annually. The elections are non-partisan. The Council's powers are confined generally to legislative, investigatory and fiscal control functions. The Council can (by a majority vote) reduce items in the Mayor's budget, but needs a two-thirds majority to increase any item in the budget.

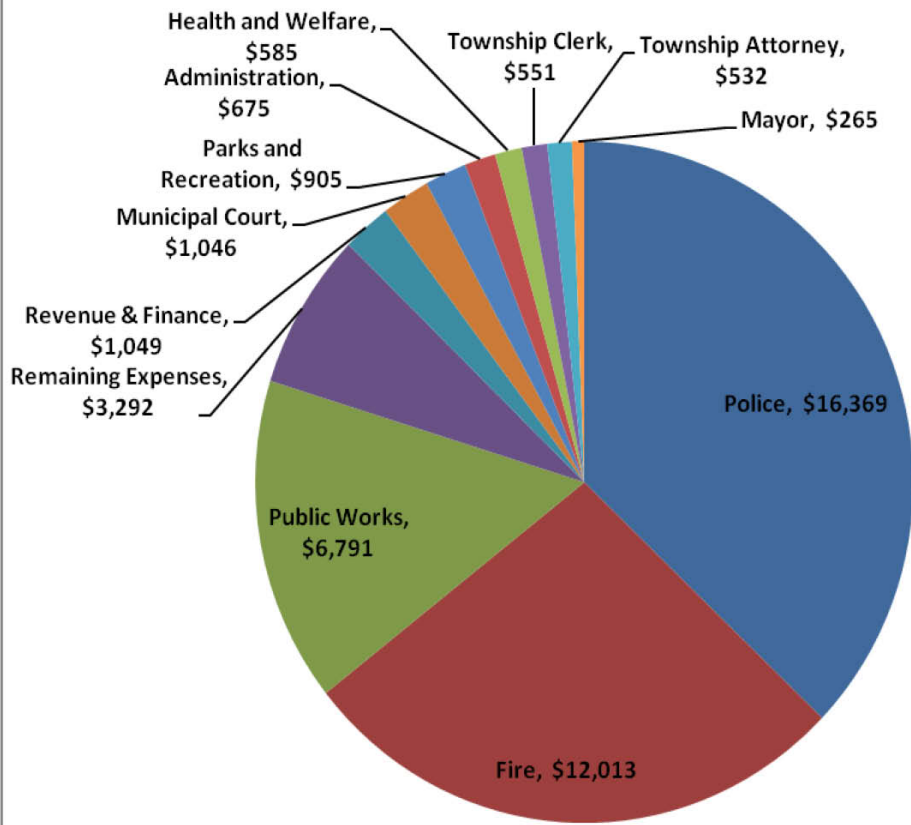
In fiscal year (FY) 2007 (July 1, 2006 – June 30, 2007), Irvington expended Federal grant funds of \$4.5 million and New Jersey State (State) grant funds of \$2.9 million, and received additional State aid in excess of \$11 million. Irvington's effective property tax rate increased 5 percent from 2005 to 2006 and 8.3 percent from 2006 to 2007.

The map on the following page shows the location of Irvington within Essex County.



According to its audited financial statements, Irvington’s budget for FY 2007 was \$86,527,225; actual expenditures were \$86,449,147, resulting in an unexpended balance of \$78,078. For FY 2008, the budget was \$83,552,226. Figure 1 below depicts FY 2007 audited operating expenditures by category:

Figure 1: Irvington's Operating Expenditures FY 2007
(Thousands)



AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

The objective of our performance audit was to evaluate the adequacy of Irvington's internal controls over selected financial management practices for the period July 1, 2006 to June 30, 2008 (FYs 2007 and 2008). Specifically, we evaluated:

1. internal controls and selected fiscal operations;
2. the ability of Irvington's accounting system to produce reliable financial statements and management reports;
3. cash management practices with emphasis on cash collections and disbursements;
4. the effectiveness of Irvington's information technology (IT) environment; and
5. personnel and payroll.

This audit was performed in accordance with the State Comptroller's authority as set forth in N.J.S.A. 52:15C-1 et seq. We conducted our performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the U.S. Government Accountability Office. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To accomplish our objectives, we conducted numerous interviews of Irvington officials, management and staff, and reviewed relevant laws, policies and procedures. Using data provided by Irvington, we performed a review of

expenditures and tests of transactions. We also reviewed personnel and payroll information and Irvington's controls over IT.

At the onset of the audit, we advised Irvington officials that we would be requesting that they sign a representation letter in which Irvington management provides assurances, to the best of their knowledge, concerning the relevance and competence of the evidence provided to the auditors during the course of the audit. This is standard practice for financial, single and performance audits. The representation letter is intended to confirm oral representations made to the auditors and to reduce the likelihood of misunderstandings as to those representations. In the representation letter, Irvington officials would assert that, to the best of their knowledge, all relevant financial and programmatic records and related data have been provided to the auditors. They would further affirm that either Irvington has complied with all laws, rules, and regulations applicable to its operations that would have a significant effect on the operating practices being audited, or that any exceptions have been disclosed to the auditors. Irvington officials did not provide us with the representation letter. As a result, although we had ample information to support the findings in this report, we remain concerned that Irvington has yet to make all applicable representations.

SUMMARY OF AUDIT RESULTS

Our audit of Irvington revealed a township whose financial management practices are in disarray. Internal controls in Irvington are inadequate. In compiling and presenting financial data, Irvington has not followed basic accounting practices or state regulations concerning those practices. Irvington is unable to accurately measure its financial position or effectively manage its fiscal operations.

Irvington has not been able to produce a balanced set of books since 2000. Its general ledger was out of balance by \$59.7 million, and there is an unreconciled shortage of \$2.6 million in Irvington's funds relative to the bank records, which has been ongoing for several years. Irvington identified 29 separate bank accounts that they have been using for Irvington business; we found an additional five accounts listed in the general ledger.

In addition, Irvington chronically pays its bills late. Moreover, it has made a series of unsupported or questionable payments both to vendors and to grant recipients.

Information technology operations in Irvington have been similarly mismanaged. Recently purchased computer equipment is missing. Irvington cell phones and other wireless devices have been misused at Irvington's expense.

As part of this audit report, we make 21 recommendations to strengthen controls over Irvington's operations.

Irvington's response to a draft copy of this report generally disagreed with its conclusions. Nevertheless, Irvington officials indicated they are already taking

steps to implement many of the report's recommendations. We have addressed specific points in Irvington's response at the end of each section of this report.

AUDIT FINDINGS AND RECOMMENDATIONS

Internal Controls

Irvington's management has not established an effective system of internal control.

Internal controls are the methods and measures adopted within an entity to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. Additionally, such controls should be in place to ensure compliance with applicable laws and regulations. Management is responsible for evaluating its operational and fiscal environment and establishing an effective system of internal control.

Irvington's internal controls are inadequate. As described more fully in the following sections of this report:

- There was no evidence of actions by Irvington's management to develop, evaluate, and monitor fiscal and administrative controls.
- In critical areas the organizational structure lacked the segregation of duties that would help to safeguard assets.
- Irvington's records and books did not agree with the audited financial statements presented to the public.
- Management has no means to monitor the fiscal health and position of Irvington.
- Key Irvington personnel have little knowledge of the importance of internal controls.

Despite the lack of an effective system of internal control, and despite Irvington's inability to produce reliable accounting records and financial

statements, Irvington's external auditor issued a clean opinion in their FY 2007 annual report on compliance and internal control.

The following sections of this report discuss in detail the lack of controls within Irvington and the effect that the lack of such controls has had on Irvington's operations.

Recommendation

1. Management should perform its own comprehensive evaluation of Irvington's operational and fiscal environment. Based on the results of this evaluation, management should establish an effective system of internal control that mitigates risk and vulnerabilities, and should train staff in the application of controls and monitor adherence.

[In its response to our draft report, Irvington stated that its internal controls had been audited annually by the U.S. Department of Housing and Urban Development and the State Department of Community Affairs. Despite our inquiry, Irvington has not provided documentation concerning any such internal control audits. Nor do the exhibits to Irvington's response contain any such audits.]

Also included in Irvington's response are various memoranda that reflect either general or specific action being taken to address the control weaknesses identified in our report. We are encouraged by Irvington's efforts to address the weaknesses we identified, and we reiterate the offer we made to Irvington officials to provide training in the areas of internal control risk evaluation and procurement to assist with their endeavors.

Our statute requires that we follow up with Irvington to ensure that our recommendations have been implemented. Such follow up will include evaluating the extent to which Irvington has addressed the internal control weaknesses identified in our report. In addition, we will assess whether all staff understand their responsibilities with respect to internal controls. Our follow

up will include tests of transactions to confirm that controls are, in fact, in place and functioning properly.]

Fiscal Operations

Irvington's management has not maintained an adequate accounting system.

Financial accounting represents the process of recording, measuring, interpreting, and communicating financial data. Each transaction is represented in the system of financial accounting using balanced debits and credits, otherwise known as double-entry bookkeeping. Use of such an accounting system by government entities in New Jersey is required by N.J.A.C. 5:30-5.7. Irvington attempted to implement an automated accounting system in 2000. Since that time, Irvington has not been able to produce a balanced set of books.

Our procedures for evaluating fiscal operations included detailed interviews of Irvington personnel involved with those functions. We also reviewed certified audit reports and findings, as well as the annual reports prepared by Irvington and filed with the Department of Community Affairs-Division of Local Government Services (DCA-DLGS). In addition, we reviewed journal entries, the general ledger, subsidiary ledgers to the extent available, and fixed asset information.

Our audit found:

- As of July 22, 2008, the general ledger was out of balance by \$59.7 million. In fact, Irvington's certified external auditors reported, "it was necessary to prepare the annual audited financial statements based on an abstract of various cash receipts, cash disbursements, and subsidiary ledgers, billing reports, revenue reports and reserve listings." A balanced general ledger with agreeing subsidiary schedules did not exist. This condition was noted by Irvington's external auditors for two consecutive years.

- Irvington's external auditor did not maintain independence in fact and appearance as required by GAGAS. Specifically, the external auditor is prohibited from preparing the basic accounting, financial or other records that the audit organization will audit. Nonetheless, the auditor acknowledged having prepared Irvington's financial statements.
- Irvington has contracted with the same auditing firm for at least 15 consecutive years. In a previous Office of the State Comptroller (OSC) report, *Selection and Use of Audit Firms by New Jersey Government Units* (issued August 12, 2008), we recommended auditing firms be rotated at least every ten years.
- Year-end close-out journal entries were not completed, contributing to the unbalanced general ledger.
- Irvington does not maintain an accurate accounting of all fixed assets as required by State regulations, specifically N.J.A.C. 5:30-5.6. There were no comprehensive policies and procedures in place for updating the fixed asset ledger.
- The FY 2007 unaudited trial balance, required by and submitted to DCA-DLGS annually, differed materially from the annual audited financial statement. The current fund had a difference of \$8 million, the trust fund a difference of \$667,655, and the capital fund a difference of \$3.7 million.
- Irvington was 58 days late in filing its annual unaudited financial statements with DCA-DLGS for FY 2007. Irvington was 25 days late in filing its annual debt statement for FY 2008.

Recommendations

2. Develop and adopt a reliable accounting system and supporting processes to ensure a balanced set of books. In addition, prepare all required financial statements.
3. Develop and maintain subsidiary ledgers.
4. Reconcile subsidiary ledgers to the general ledger.
5. Perform monthly and year-end closing procedures.
6. Submit required reports in a timely manner to DCA-DLGS.
7. Require the retained audit firm to adhere to the GAGAS independence standard.
8. Rotate audit firms in accordance with the recommendation contained in the August 2008 OSC study.

[Despite Irvington's assertion in its response to our draft report, we did not take exception to the particular accounting software being used by Irvington. Rather, our audit findings and recommendations are predicated on Irvington's consistent inability to maintain a balanced set of books and records. Regardless of what accounting system is used – automated, manual, or a combination thereof – the basic concepts of financial accounting and reporting need to be applied.]

In its response, Irvington also provided a copy of a system-generated trial balance dated January 30, 2009, that asserts the general ledger is now balanced. While Irvington's responsiveness to the out-of-balance general ledger we identified is encouraging, it is troubling that on page 5 of Irvington's response they make a reference to a "manual" General Ledger. Throughout the course of the audit, neither Irvington officials nor its fiscal staff ever made reference to a manual general ledger.

With respect to the general ledger reconciliation, Irvington should maintain adequate support to demonstrate how they identified what accounts to adjust and the basis for decisions on what, if any, write-offs to take. Our follow up will review this support as well as Irvington's ongoing ability to ensure the accuracy of the accounting system. Accurate and timely monthly closings are of the utmost importance in ensuring management's ability to produce reliable information on which to base their fiscal and operational decisions and to comply with regulatory requirements.

Further, Irvington's external auditor stated that their compliance with AICPA Independence Rule 101 also constitutes compliance with GAGAS. However, GAGAS imposes more stringent requirements that preclude the auditor from maintaining or preparing the audited entity's basic accounting records and providing input to the entity's financial records.^{1]}

¹ U.S. General Accounting Office, *Government Auditing Standards (GAO-03-673G)* at 40-41 (2003).

Cash Management

Irvington's cash management system is inadequate.

Cash management policies and procedures should include appropriate controls.

Objectives of an effective cash management system include:

- collecting and depositing revenues in a timely manner;
- investing idle cash;
- forecasting cash availability to meet obligations;
- complying with applicable laws, regulations, policies, and guidelines;
and
- ensuring that cash is protected from fraud, waste and abuse.

Our review of bank statements for timely reconciliations, due to/due from account activity, and the rate of return on cash and investments found:

- Throughout the majority of our fieldwork, Irvington management represented that Irvington maintained 29 separate bank accounts. Of these 29 accounts, our audit determined that municipal funds were primarily deposited to and withdrawn from 13 accounts. Of the remaining 16 bank accounts, 5 had no activity over the past 12 months, and 11 had minimal activity such as sporadic deposits and monthly interest postings. On January 8, 2009, we identified at least 5 additional bank accounts in the general ledger.
- Two Irvington accounting staff members are responsible for the bank reconciliations. Based on the time spent to reconcile the bank statements, we estimated the annual cost to Irvington of doing it manually to be about \$81,000 including employee benefits. However, the June 2008 bank reconciliation for the current fund ended with an

unreconciled shortage of \$2.6 million in the bank balance versus the book balance. According to the accounting staff, this overstatement of municipal funds in Irvington's records has been ongoing for several years. Overall, we observed that bank reconciliations are not prepared in a timely manner, and have significant unreconciled items. It was not uncommon for reconciliations to take place six to eight months after the date of the bank statement. Further, bank reconciliations are neither signed-off and dated by staff, nor reviewed by management.

- Numerous stale-dated checks were carried forward on bank reconciliations for several years. For example, the June 2008 bank reconciliation for the current account included outstanding checks as follows:
 - 117 checks dated from FY 2002 through FY 2006 totaling \$57,120;
 - 7 checks from FY 2007 totaling \$174,754; and
 - 33 checks from FY 2008 greater than 60 days old totaling \$16,134.

- The same person who prepares the deposits also performs bank reconciliations. No individual should be in such a position to cause and conceal irregularities.

- Despite several requests for monthly reconciliations, management was unable to provide relevant documentation or an explanation for unbalanced due to/due from accounts.

- The State's Cash Management Fund is not being used to optimize the rate of return on Irvington's cash and investments. For example, for the period ending June 30, 2008, interest earned by Irvington was 1.79%,

while the yield in the Cash Management Fund was 2.25%. Further, in an effort to determine if all available cash was being invested, we requested copies of Irvington's cash projections, but none were provided.

- From 2002 to 2007, Irvington received overpayments from the State Department of Education (DOE) for their school debt service aid totaling \$8.1 million. DOE notified Irvington in July 2007 that it had failed to report to DOE the refinancing of its school bonds in 2002 and 2003, resulting in the State aid overpayment. Irvington made an agreement with DOE to repay more than \$400,000 annually over the next 20 years, which could have a negative impact on residential tax rates. Irvington's revenues were overstated in the years of overpayment, resulting in a distorted fiscal position during those years.

Our detailed testing of cash disbursements concentrated on the most recent fiscal year. We tested 42 FY 2008 cash disbursements totaling more than \$1.4 million. We identified numerous and significant issues with 26 of the 42 items. For example:

- Irvington's monthly cell phone invoices are not paid in full, resulting in a significant unpaid balance being carried over from month to month. As of June 30, 2008, the overdue balance was \$54,573, in addition to the current monthly balance due of \$16,776.
- Land-line phone accounts follow a similar pattern of significant unpaid monthly balances. As of July 1, 2008, for example, for one account the overdue balance was \$96,445, in addition to the current monthly balance due of \$6,677.
- Irvington pays other bills late as well. For example, in July 2007 it paid \$290,000 for past due gas and electric charges.

- Irvington paid Harrah's Hotel and Casino in Atlantic City, New Jersey \$10,787 with no supporting documentation from the vendor to confirm the hotel stay for 19 employees attending a three-day conference on municipal government issues in November 2007. As a result of our inquiry, Irvington obtained detailed invoices from Harrah's. Upon review, we determined Irvington had actually overpaid Harrah's \$2,271.
- Due to an inadequate recordkeeping system, Irvington was unable to dispute 25 invoices going back as far as June of 2002 that a vendor claimed Irvington had never paid. Irvington could not provide the vendor with any supporting documentation confirming that it had, in fact, paid any of the invoices. Therefore, Irvington came to an agreement on the lump sum settlement of \$11,000 for all charges.
- One disbursement (\$6,825) was paid a year after the invoice date using a manual check without justification. The use of manual checks is inconsistent with the application of appropriate internal controls.
- Irvington paid \$142,800 of a \$157,700 contract for work to its juvenile detention area that did not pass the post-construction inspection of the State Department of Law and Public Safety, Juvenile Justice Commission (JJC).
- For 12 disbursements (totaling \$106,969), we found the following problems: the related contract had no scope of services; and there was no justification for a price increase from the original quote.
- For four disbursements (totaling \$57,500) related to grant agreements, Irvington did not properly disburse funds in accordance with the requirements of the agreement. Specifically, the sub-recipient never provided the required support for the costs it claimed it had incurred.

Recommendations

9. Develop appropriate policies and procedures to ensure good cash management practices that safeguard Irvington's assets. At a minimum:
 - Review activity in bank accounts and close the accounts that are not necessary.
 - Prepare ongoing cash projections and appropriately invest any excess cash.
 - Perform automated bank reconciliations. This would conserve staff time and provide reliable financial data in a timely manner.
 - Perform timely reconciliations that are evidenced by preparer and reviewer signatures and dates. Conduct a thorough investigation of the \$2.6 million shortage.
 - Cancel stale-dated checks and either return the funds to the bank account or escheat to the State as appropriate.
 - Separate the responsibilities related to the receipt and deposit of cash.
 - Ensure timely reconciliation of due to/due from accounts.
 - Optimize the rate of return on cash and investments.
 - Recognize liabilities in the year-end financial statements.
 - Pay invoices timely and document all such payments.
10. Ensure that all contracts include scope-of-services provisions detailing vendor obligations under the contract.

11. Work with the Department of Law and Public Safety to bring the Juvenile Detention Center into compliance with JJC requirements.

[In its response to our draft report, Irvington cited significant progress toward implementing our recommendations with respect to bank account controls and closings. At the onset of discussing the draft report with Irvington officials, we discussed the need for documentation demonstrating that the accounts in question had now been closed. Irvington still has not provided such documents.

On January 30, 2009, Irvington did provide a recently completed due to/due from reconciliation schedule. However, the due to/due from reconciliation did not net to zero and the residual difference lacked any explanation. Due to/due from net differences are the exception and therefore require appropriate justification.

In its response, Irvington also said that if we had questions concerning the accounting system, we should have interviewed the Chief Financial Officer. We did, in fact, interview the Chief Financial Officer on more than one occasion.

We encourage Irvington to continue the steps it has taken to address the various cash management issues cited in our report. At the exit conference on February 4, 2009, Irvington officials stated that they will work to improve the specificity of their scope of services provisions and will work to ensure that adequate support is obtained and reviewed prior to approving payments.]

Information Technology

Irvington's information technology environment is mismanaged.

We reviewed the Irvington IT Department's management and control environment. Our review included its organizational and administrative structures, the extent to which policies and procedures existed for its operations, staffing levels, and relevant skills possessed by staff.

Irvington's IT environment lacks clear priorities and direction. Irvington's physical and logical IT security measures, and the absence of formal policies and procedures, provide a framework for mismanagement and increase the risk of waste, fraud, and abuse. Irvington is unprepared for possible disasters such as a power failure, fire, or flood. Irvington is also vulnerable in other areas, including the risk that equipment could be removed or stolen without management's knowledge, and that confidential information could be obtained by an unauthorized individual.

Security measures covering personnel, facilities, hardware, software, data, and documentation should be implemented to provide for the safety of data and to bring risk within tolerable limits at the lowest possible cost. Specifically, we considered the effectiveness of Irvington's IT control environment as related to the following three categories:

- Availability: Will critical information systems be available for the entity at all times? Are the systems well protected against losses and disasters?
- Confidentiality: Will the information in the systems be disclosed only to personnel who need access to that data?

- Integrity: Will the information provided by the systems be accurate, reliable and timely? What controls are in place to ensure that unauthorized modifications cannot be made to the data or software?

Irvington's IT Department is comprised of a supervisor and a full-time assistant. The supervisor reports to the Business Administrator, who reports to the Mayor. The current supervisor has held this position for more than five years. Irvington contracts with two consultants for the administration of network systems. The consultants are also available to provide technical support when requested.

In addition to Irvington's municipal data center, the Police Department maintains its own data center and does not rely on Irvington's IT staff. A Sergeant is the acting IT support representative for the Police Department and the Police Department uses one of the two consultants mentioned above for system administration and technical support.

General IT Operations

Irvington has not developed a strategic IT plan to efficiently and effectively carry out its mission. Formal policies and procedures do not exist for acceptable use of computers, use of e-mail, remote access, granting visitors network access, password protection, and granting/terminating employee access to systems.

Furthermore, the network diagrams prepared by an outside consultant five years ago have never been updated and there is no inventory of computer software and equipment. As a result, there are no records of equipment assigned to employees. Consequently, Irvington has no means to take physical inventories or monitor the return of assets upon employee separation.

Using a list of computer equipment purchased from Irvington's main vendor for the period July 1, 2004 through June 30, 2008, we selected 77 items for physical

inventory verification. Our verification identified 29 items (38 percent) that were missing. Over the next several weeks, Irvington was able to produce 21 of the 29 missing items. For example, several laptops were returned to Irvington's office by employees. In one instance, the employee said her son was "fixing it up for her, because he was good with computers." Another employee said he "uses it for class at night and forgot it at home." The remaining eight items with a cost of \$10,447 were never located.

Our review also found that little is done to manage Irvington's cell phone and BlackBerry distribution and usage. Approximately one-third of Irvington's employees have been assigned a municipal BlackBerry or cell phone. Irvington has not engaged in any business justification analysis concerning such assignments.

Personal use of township cell phones is permitted unless such usage results in an overage charge. Irvington's policy requires overage charges to be investigated, and then justified or paid by the employee. Our review shows this policy was rarely applied in practice. For example, over a 13-month period, Irvington experienced in excess of \$140,000 in provider charges with \$36,371 in overage charges. These unreimbursed overage charges included charges for downloading games and ring-tones, international roaming for calls from the Dominican Republic, Cayman Islands and Mexico, data charges, text messaging charges, and minute overages.

Our detailed analysis of Irvington's phone plans and usages also revealed that Irvington could have negotiated more cost-effective plans.

Data Centers

During our site visit to Irvington's data center we observed the following:

- It is located near a busy public entrance without adequate physical security measures.
- There were no fire extinguishers, fire suppression system, or smoke alarms. Furthermore, the room was dusty and contained stacks of unused and outdated computers. The server cooling vents were clogged with dust.
- Two servers were not functional and one server exhibited a blinking amber hard drive light indicating a failed condition.
- The backup power supplies were not fully functional.
- The only means of creating a tape backup was also broken. The IT supervisor stated that it had been broken for more than six months and that there are no plans to repair or replace the unit.
- The switches and routers were not labeled, which made it impossible to trace them to their destinations.

Applications

- Irvington does not maintain a working e-mail system for its non-Police employees to conduct business-related activities. Instead, those employees were using their personal e-mail accounts for Irvington business throughout the majority of our fieldwork. No list is maintained of these personal e-mail accounts. At the end of our fieldwork, Irvington began to implement an internal e-mail system. The Police Department hosts a commercial e-mail server in its data center.

- Despite the fact that funds are spent annually on accounting software updates and consulting fees, the accounting application has not been fully implemented or maintained in a manner that adequately supports fiscal operations.
- The office software suite is so outdated that it will not be supported by the vendor in 2009, which will be an impediment to information technology continuity.

Security

- The network active directory, which maintains all network login credentials, showed 24 terminated employees as active and continuing to have access rights. Similarly, our examination of access to Irvington's accounting system found that 23 of the 94 active user accounts tested should not have had access rights. Three terminated individuals who had inappropriate network access could also access the accounting system.
- Our inspection of a user's computer in the Business Administration office found an old version of virus protection software. A subsequent scan revealed hundreds of viruses and infections. This could be a contributing factor to the feedback we received from some users that Irvington's computers frequently lock up or crash.

Business Continuity

- All of the major equipment and servers in the data center are beyond their life expectancy and are no longer covered by a service contract with the supplier.

- Network databases and local data were not backed up. Irvington does not archive or store data off-site, except for one user in the Business Administration office who, as she described to us and we observed, uses a personal external hard drive to back up the Financial System data only, then takes the backups home. This employee performs the same procedure for other municipalities and uses the same portable hard drive for all of those entities. This is inappropriate since sensitive and confidential information is backed up to a personal device and maintained at that employee's residence. Further, there are no assurances that data is not lost, stolen, exploited, compromised by viruses or comingled with data from other entities.
- There are no network archives for application servers and no disk images for desktops. Therefore, the process of recovering from a system crash is lengthy and full recovery may not be possible. There is no mirror image of critical system components to ensure Irvington's ability to restore operations quickly during a crisis.

Recommendations

12. Evaluate current IT staff to determine if they have the requisite skills to implement and maintain a functional and secure IT infrastructure.
13. Develop and execute a comprehensive IT Strategic Plan which includes the following:
 - Formal IT policies and procedures for acceptable use of computers. These policies and procedures should cover e-mail, remote access, granting visitors network access, passwords, and adding new employees to and removing separated employees from the network.

- Maintain an inventory of all software and hardware and periodically update and check with physical counts.
 - Replace and maintain hardware and software in a way that ensures fully functional applications.
 - Create a backup policy that includes image backups, periodic and archival backups, and offsite backups. These policies should cover all servers, network storage, and systems configurations.
14. Adhere to the policy on investigating and recouping cell phone and BlackBerry overage charges.
 15. Use the most economical cell phone and BlackBerry plans available.
 16. Bring the data center into compliance with the Telecommunications Infrastructure Standard for Data Centers² or a comparable nationally accepted standard.
 17. Considering operating needs and costs, determine the feasibility of merging Irvington's municipal data center and that of its Police Department into one secure location. Specifications for the consolidated server room should address all deficiencies previously mentioned. Consolidation would be more cost-effective than maintaining two separate server rooms with varying degrees of security and functionality.

[In the response to our draft report, Irvington officials took strong exception to our IT findings. They indicated that we should have interviewed the Business Administrator to discuss IT policies and procedures. In fact, we conducted over four hours of interviews at which the Business Administrator was present.

² Issued by the Institute of Electrical and Electronics Engineers (<http://www.ieee.org/web/standards/home/index.html>).

Further, the results of our audit were not based entirely on interviews, but rather on detailed tests and observations.

Our meetings with Irvington's IT supervisor were all scheduled in advance. At each meeting, the IT supervisor was eager to receive our comments so they could help him conduct his work in a more efficient and effective manner. The IT supervisor believed our audit could help him shed light on existing IT problems and ultimately get his department the attention he has sought.]

Personnel Practices

Some of Irvington's personnel practices are inadequate.

As part of our audit, we also reviewed Irvington personnel assigned to those areas noted throughout this report. We focused on evaluating staff qualifications and training, and determining if job responsibilities were clearly defined and if staff had been evaluated with respect to their responsibilities.

We tested 20 employees, 12 who work in the fiscal area, 6 in grant management, and 2 in IT. We found:

- Eighteen of the 20 employees, with an average length of service of 11 years, had not received any performance evaluations.
- Five of the personnel files did not contain resumes or other documents showing the employee's qualifications for the position.
- Thirteen files did not contain job descriptions.

Recommendations

18. Fill positions with qualified staff.
19. Create clearly defined job descriptions for all employees.
20. Evaluate the performance of each employee at least annually.
21. Take appropriate action when employees do not perform their job responsibilities in a satisfactory manner.

[In Irvington's response, the Business Administrator claimed the "official" personnel files were maintained in his office. However, the files we received were, in fact, provided by the Business Administrator.]

REPORTING REQUIREMENTS

Irvington's response to this audit report is attached as Appendix A. Their response was considered in preparing our final report. Irvington's response included more than 350 pages of Exhibits and other attachments which are not appended to this report, but will be posted on our web-site.

Irvington's response is prefaced by two letters addressed to the Comptroller. The first letter criticizes the fairness, objectivity and qualifications of the staff associated with the audit. In the second letter, Irvington officials criticize what they characterize as the "unprofessional attitude" of the audit's senior official who conducted the audit exit conference.

In terms of the first letter, the statute establishing the Office of the State Comptroller and Generally Accepted Government Auditing Standards collectively require that we select and conduct our audits in a fair and objective manner employing only qualified staff.

We selected this audit based on, among other factors, fiscal concerns we noted upon review of Irvington's 2006 certified financial statements and a request by the Department of Community Affairs-Division of Local Government Services that was related to concerns it had regarding grant administration. In light of the results of the audit, those concerns were well founded. The specific areas we identified for audit were based on our detailed risk assessment of Irvington's financial and operating controls, a process in which Irvington itself had never engaged.

As to the qualifications of the staff responsible for conducting this audit, they collectively possess 169 years of accounting, auditing and IT experience and hold 13 professional certifications. In addition, the attorney assigned to this

audit, a former director of a municipal purchasing department, possesses an expertise in local government procurement law.

In terms of the second letter, Mayor Smith is correct in characterizing the tone of the exit conference as combative. Our audit team and senior official maintained their professionalism and tried to keep the meeting focused on the facts of the audit. Unfortunately, Irvington officials did not do so.

The response itself, including its voluminous attachments, while again critical of the way in which the audit was conducted, generally did not provide any compelling evidence that would cause us to change the audit's conclusions. To the contrary, upon close inspection of Irvington's response, the assertions in the response are frequently unsubstantiated, irrelevant, or incorrect. We are nonetheless pleased that although Irvington claims to disagree with many of our conclusions, the response indicates that Irvington officials are already taking steps to implement many of the report's recommendations.

The Office of the State Comptroller is required by statute to monitor the implementation of our recommendations. As part of this requirement, Irvington shall report periodically to this Office advising what steps have been taken to implement the recommendations contained herein, and if not implemented, the reasons therefore.



WAYNE SMITH
MAYOR

TOWNSHIP OF IRVINGTON
CIVIC SQUARE MUNICIPAL BUILDING
IRVINGTON, NEW JERSEY 07111
TEL: (973) 399-6639 • FAX: (973) 399-7321

February 19, 2009

Matthew Boxer, State Comptroller
Office of the State Comptroller
20 West State Street
P.O. Box 024
Trenton, NJ 08625

Dear Mr. Boxer:

Attached you will find the Township of Irvington's response to your office's draft audit report. Include this entire document with all in exhibits and attachments as our official response. While I understand that there is always a need for improvement I would hope that in the future when your office monitors various entities it done both fairly and objectively.

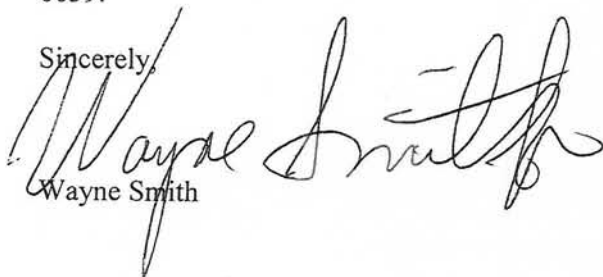
Furthermore, your staff should be directed to follow their own rules of engagement and to deal with people appropriately. Often watch dog entities are created with good intention but unfortunately because they think they are above the fray they become a part of the problem.

Attached is my letter dated February 9, 2009 which pointed out some of my concerns relevant to both your staff and the process as a whole. I am very disappointed that it seems the intent of your office was malicious as evidenced by their lack of interviewing appropriate staff, thoroughly reviewing documents, and asking the necessary questions.

Lastly, I would hope that in the future your office ensures that qualified staffs who understand the terminology and practices of the entity being audited are utilized as I believe this issue played a role in the audit as a whole.

If you have any questions or would like to discuss this further feel free to give me a call at (973) 399-6639.

Sincerely,



Wayne Smith



WAYNE SMITH
MAYOR

TOWNSHIP OF IRVINGTON
CIVIC SQUARE MUNICIPAL BUILDING
IRVINGTON, NEW JERSEY 07111

TEL: (973) 399-6639 • FAX: (973) 399-7321

VIA FACSIMILE (609) 292-2017

February 9, 2009

Matthew Boxer, State Comptroller
Office of the State Comptroller
20 West State Street
P.O. Box 024
Trenton, NJ 08625

Dear Mr. Boxer:

The Township met with the State Comptroller team to discuss issues relative to their report regarding the auditing of Irvington's financial management system and operations. The first meeting was to discuss the initial audit report draft and the second was to discuss what we were essentially told would be their final draft.

I am sorry to report that the tone of both the aforementioned meetings was terse, combative and to some extent condescending. Such phrases as "I don't have time for this," "we're moving on," "I'm not answering that question," "why don't you tell me what the answer is Mayor Smith or Mr. Bradley" were directed by Kathleen O'Donnell at Irvington officials. Often times I as Mayor had to request that Ms. O'Donnell stop raising her voice at me and speaking to me as if I didn't understand English. For a state official, I was stunned at the way she endeavored to speak down to other professionals who were doing nothing more than attempting to show their concerns and opinions relative to the audit report we were supposed to be discussing. Her tone was combative and adversarial even when we correctly identified a mistake or mistakes in the report that she eventually conceded to.


I candidly said at the meeting that what appeared to be a cynical, snide remark, laced attitude led me to have suspicions as to the objectivity of this audit venture. Needless, to say I could not further comment on this audit without first bringing to public attention the unprofessional attitude of the main state official who addressed the Township officials during the meeting. I must note that other members of the team who were at the meeting did not adopt the kind of demeanor referenced above and essentially remained relatively quiet throughout.

As per your letter dated February 4, 2009 by Mr. William P Challice indicates "we thank you and the staff of Irvington Township for the courtesies and cooperation extended to our staff during the audit".

Finally, we are requesting a meeting with you before the final report is cleared for release.

Furthermore, as per the original scope of services bullet point 8 given to the Township during the Opening Conference Agenda dated July 9, 2008, states that the Exit Conference and Agency Audit Reponse: Preliminary findings will be discussed during the engagement. A discussion draft report will be provided prior to the exit conference for review and comment. Subsequent to the exit conference a formal draft report will be provided to management for their written response within fifteen days. This response should include management's position to the audit findings and recommendations and any action planned to address the findings. We therefore respectfully request our fifteen-day response time.

Sincerely,



Wayne Smith
Mayor

This is the official response of the Township of Irvington to the Office of State Controller Report

The Township of Irvington contends that our financial management practices are not in disarray while we realize we can improve we would not be able to perform the functions of everyday governance. We can measure the financial position and we effectively manage operations.

Furthermore, under the audit objective, scope and methodology it states these standards require that planning and performance of the audit obtain sufficient, appropriate evidence to provide a reasonable basis for your findings and conclusions based on audit objectives.

The State Controller did not meet these standards and in fact we question both the objectiveness and the reasonable basis which we will delineate as we answer each finding. In addition, the practice of not talking to the Director's of each department in question before these findings were written just further points out how the Township was mistreated in the process of this audit. By not gathering the facts the State Controller staff gives a misrepresentation of the facts of Irvington's fiscal operations.

Internal Controls:

Findings

The following sections of this report discuss in detail the lack of within Irvington and the effect that the lack of such controls has had on Irvington's operations.

Response

The Township of Irvington has internal controls and offers the following as proof of our systems.

- The township has been audited, evaluated and/or monitored each year by different agencies such as HUD, DCA, etc. on internal controls on an ongoing basis. To

date we have not received such a negative finding as indicated in your report.(see **attached Exhibit 1)**)

Further as evidenced by the attached sources of past monitoring we have various controls in place. In addition, our history and practice shows that in areas that have been identified as having a weakness we have taken action to correct them; i.e. the review of the outstanding account with PSE&G, cell phone and landline policy and practices. (see **attached Exhibit 2)**)

Internal controls are in place by fully utilizing the Edmunds Financial System, which has an electronic requisition system that requires three levels of approval before a purchase order is generated and an encumbrance is placed on the applicable appropriation. The State Controller's Staff did not know what an appropriation was as reported by Assistant Controller. We have purchasing manuals which meets the procurement law requirements. No employee can generate a purchase order if funds are not available.

The temporary and adopted budget and revenues are posted in the subsidiary ledgers and available to all authorized employees for review and monitoring. Cash balances and cash reports are submitted to CFO on a weekly basis. Bank reconciliations are reviewed and prepared a monthly basis. The principle accountant keeps a cash flow projection and monitors all revenues and cash accounts along with the CFO.

The adjustments from the 2007 Annual External Audit has been adjusted and reported by the CFO and as you are aware were being corrected as per the Audit findings. The imbalance of the GL the system requires the year adjusting entry which was created by and maintained by the CFO. Furthermore, all postings have been done and our books match the annual financial statements.

Our CFO and Assistant Controller has the CMFO Certification furthermore, the Principal Accountant has completed six of the seven required courses to be able to sit for the exam. In addition, all three have received training on the Edmunds Software System including performing year closing procedures. The CFO and assistant controller in 2007 attended

training on Internal Controls at Rutgers for CEU credit. All key personnel have knowledge of the importance of internal controls.(see attached Exhibit 3)

Fiscal Operations:

Findings

The General Ledger is out of balance, external auditor, did not maintain independence, external audits has been contracted for at least 15 consecutive years, year-end close out journal entries not completed, inaccurate of fixed assets and unidentified trail balance differed materially from annual audit financial statements, along with filing of annual financial statement be filed late.

Response

The general ledger is a computerized system by Edmunds which requires adjusting ending balances to be posted to remain in balance when rolling over fiscal new year. The yearend closing adjustment had not been posted in the Edmunds that was maintained by the CFO in a spreadsheet format which, reflect a balanced General Ledger. The entries have since been made.(see attached Exhibit 4)

- Attached you will find a letter from our Auditing firm regarding the finding of independence.(see attached Exhibit 5)
- As for the recommendation regarding the rotation of auditing firms, we contend that The Township of Irvington follows the rules as established by NJSA 40A:11 and does RFP's every year for auditing services. In addition, attached you will a find a letter from the New Jersey Society of Certified Public Accountants opposing the rotation of audit firms.(see attached Exhibit 6)
- As per the attached, we have a memorandum that outlines the process to capitalize and maintain fixed assets ledger which has a \$5,000 threshold, all of which has been provided to the audit team. In addition, our process meets the standards of local government services technical directive #2. Fixed assets are constantly being updated by the administrative clerk under the supervision of the assistant

controller. While the Township acknowledges there is no written policy regarding updating fixed assets we have procedures and a practice in place to perform said task. The Township would argue that this is a common practice in most municipalities. However moving forward the Township Administration will propose to the Municipal Council an ordinance for their review and adoption that will serve as the Township's policy for the future.(see attached Exhibit 7)

- As per your finding regarding the fiscal year 2007 un-audited trial balance required by and submitted to DCA-DLGS annually, differed materially from the annual audited financial statement. The adjustments were based on recommendation by the external auditor and reviewed and agreed to by the CFO before issuing the final audit.
- We do have an accounting system used by a number of municipalities across the state which is the Edmunds system. This system can provide a complete and accurate accounting of all the township's fiscal requirements. If there were question regarding this matter, the chief financial officer should have been thoroughly interviewed, not merely asked for information. The Edmunds Financial Accounting System is one of the most reliable and fully functional systems in the state.
- We have maintained subsidiary ledgers and they are available for review, as you are aware by your statement on page ten, recommendation four, "to reconcile subsidiary ledgers to the general ledger."
- Irvington has and maintains subsidiary ledgers which include revenue journal, cash disbursements, encumbrance, payroll journal and general journal. The general ledger is a summary of all the financial transactions as recorded in these books of original entry.
- The CFO has the year end journal entries to the general ledger which brings the

computerize trail balance into balance as well as an agreement with the annual financial statement. Monthly and year-end closing procedures are being formalized in writing and will be delegated to the proper staff, which will include the required review and monitoring to insure timely and accurate reporting

- Attached as indicated above you will find a letter from our Auditing firm regarding the finding of independence.
- As for the recommendation regarding the rotation of auditing firms, we contend that The Township of Irvington follows the rules as established by NJSA 40A:11 and does RFP's every year for auditing services. In addition, attached you will find a letter from the New Jersey Society of Certified Public Accountants opposing the rotation of audit firms.

Cash Management:

Findings

Our review of bank statements for timely reconciliations, due to/due from account activity, the return on cash investments, and test of cash disbursements.

Response

As you point out many fiscal issues go back to at least 2000 which was prior to the Smith administration. We are cleaning up as many of them as possible as well as running a complex Municipal organization with limited staff and funding. The finance office has been constantly reviewing and closing out unneeded bank accounts. To date over twenty accounts have been closed. Furthermore, several of accounts are married to specific grant funded programs. We acknowledge the General Ledger Electronic system showed the five accounts totaling \$479,255, however a review of this item would have shown that these accounts had all been closed and properly credited and closed out in our manual General Ledger. Attached is the proof of said closure.(see attached Exhibit 8)

- The two staff (principal accountant and accounting assistant) job duties include much more than bank reconciliations. They are responsible for bank deposits, reconciliations, analysis of health benefits, and many other duties associated with the finance department. Therefore your assertions regarding what duties they are paid for are false.

Furthermore, the June 2008 bank reconciliation for the current fund has been corrected and reconciled. Bank reconciliations are done by the staff accountant, reviewed by the principal accountant before being forwarded to the CFO.

We are in the process of preparing a list of stale-dated checks to be submitted to the Irvington Council for action.

All deposits received in the finance department is from other individual departments is turnover form signed and dated by both parties, if the check is received in the mail directly in the finance department the check is logged in by the administrator clerk then turned over to the Accounting Assistant who prepares the deposit slip. The deposit is then turned over to tax office for deposit in the bank with other deposits coming in from the various departments. All deposit slips with supporting documentation is then turned over to the principal accountant who post the receipts into the Edmunds Accounting System. The bank reconciliations are prepared by the Accounting Assistant and reviewed by the principal accountant then reviewed and approved by the CFO. (**see attached Exhibit 9**)

- The CFO during the audit was completing the reconciliation of the Due to/Due from accounts and had finished the analysis and submitted to your audit staff after receiving the first draft audit. Yet this finding remains in your final report.

- Irvington constantly reviews our returns on cash and investments and our yearly average is 3.04%. Furthermore, The CFO has cash projections and weekly projections

are done by our Principal Accountant. Lastly, we do not have any evidence of a request for cash projections. All cash flow statements are up to date and available for review.

- The Irvington Board of Education – the state aid received by the State Department of Education occurred from the restructuring of school debt, which in turned reduced the debt service payments. The Local Finance Board approved the restructuring. In the process the new debt schedule was provided to the State Department of Local Government Services, Dept. of Treasury, and the Irvington Board of Education. The process called for the Local Board of Education to update the computing system to the State Department of Education who was responsible for providing the information to calculate the share of which the state payments aid to the Township. The Local Board of Education never updated the debt service and inadvertently Irvington was paid on the old debt service schedule which created an over payment. The additional payment was anticipated and realized in the respective year’s budget. The anticipation of these funds in each year’s budget thus enabled the Township to apply them toward reducing the Township’s tax note.

- The cell phone bills have been under review and monitored for the past year. Any unpaid bills were in dispute and are currently awaiting credits and/or corrections based on the agreed services. The attached report prepared by the CFO and finance staff which had major recommendations has been implemented to date and ongoing monitoring is in place.

- As for monthly land line bills, if a balance have not been paid, it is in dispute. Furthermore, as evidenced by the attached review of the landlines we believed that we were being charged for duplication of lines, etc.

- The public service, gas and electric bill past due payment made in July 2007 was a function of an adjustment made for prior year’s usage and was not an ongoing issue. Arrangements for additional payments have been made as per the attached (exhibit) Resolution is not required for ongoing service that the Township utilizes. However, the

item was posted on the bill list and approved by Council.

Furthermore, these bills were being monitored by the CFO and the original invoices were in the CFO's office who had stepped in to negotiate on behalf of the Township. Questions regarding this issue could have been addressed if the CFO had been interviewed regarding the questions.

- Harrah's Hotel and Casino was booked through AC Booking who does the booking for the New League of Municipalities Conference. The initial price quote received from AC Booking included sales tax and was inadvertently included in the check that was processed upon booking the rooms.

In addition, after review it was found that six employees left a day earlier than the initial dates that rooms were reserved and paid for thereby resulting in a refund due to the Township for these six rooms and the sales tax that was paid in error.

The Township has since contacted the AC Booking and is expecting a refund check shortly.

In the future the Township will monitor and reconcile all invoices to payments made in advance. In addition, a review of the breakdown is being conducted and disciplinary action will be taken if necessary.

- The Township received an invoice from RC Search in the amount of \$13,474.00 for services rendered in June 2002 which, was before my administration. Upon review of the invoices and services it was determined that the Township owed \$11,000 for title searches ordered by our legal department and performed. As proof the Township had a letter from the Attorney who ordered said searches certifying that the service was performed and to the amount owed. In addition, we had a copy of each record from the search performed.(see attached Exhibit 10)

The Township will go back and train staff regarding the practice for purchasing services and internal controls. In addition, all policies and procedures that are internal and don't require Council approval that need updating will be revised within 45 days.

- The Department of Public Works did not receive the invoice from Tillcon until a year after the date the services were provided. The company then contacted the Finance Department regarding legally pursuing the Township for the amount owed. In an effort to negate any legal and/or any other additional fees after the Department of Public Works certified that the services had been performed a manual check was approved by the CFO, processed for payment and subsequently placed on the bill list which was approved the Township Council.

- Irvington paid \$142,800 of a \$157,700 contract for work to its juvenile detention center based on bills and certification from the Townships Engineer that said payments were due. The Township contends that scope of services and plan was reviewed and approved by the State of New Jersey Office of the Attorney General Department of Law and Public Safety Juvenile Justice Commission and subsequently a meeting was held and with Mr. Richard Case, Compliance Monitor from State of New Jersey Office of the Attorney General Department of Law and Public Safety Juvenile Justice Commission. After said meeting a letter dated February 4, 2008 was received by the Township on noting the big improvement to the Bureau however pointing out some remaining issues relating to the Holding Room.

*
Comment

Your finding noted that three juveniles were placed in the detention center on May 19, 2008 “despite the determination by JJC that the facility was unacceptable for use.” Your finding is inconsistent with the attached letter dated February 4, 2008 from Mr. Richard Case, Compliance Monitor from State of New Jersey Office of the Attorney General Department of Law and Public Safety Juvenile Justice Commission top paragraph of the last page the report indicates that “Until these concerns are remedied policy should direct that police staff maintain direct and continuous supervision of any juvenile placed in the cell.”(see attached Exhibit 11)

*We have revised our report based on information provided in the response.

In addition, attached are various letters and correspondence from our Township Engineer to Jacob's Construction Company regarding finishing and fixing the required items outlined in the letter from Mr. Richard Case, Compliance Monitor from State of New Jersey Office of the Attorney General Department of Law and Public Safety Juvenile Justice Commission.(see **attached Exhibit 12**)

Furthermore, it was based on these findings and the contractor non compliance that no additional payments were made to the vendor on behalf of this contract. Additionally this matter has been referred to our Legal Department for action.

The Township would contend that this is a perfect example of our internal controls at work.

The 22 disbursements represent ten vendors although the one for PSEG has been previously mentioned in this report, the following is our response to each item referenced in your report.

- Angelo Auto Body \$9,838.32 payments was made for repair services the purchase order serves as the contract and since it was under the threshold the three bid system was implemented and awarded. The backup for this expenditure was held in the files of Public Works Department. The Township contends that this expenditure was expended appropriately and therefore disagrees with any finding related to this item.

- A Paul Contracting had two payments invoices totaling \$39,279, the process that was done included an estimate and scope of services to be performed by our in house Estimator who works in the Office of Community Development. Based on this estimate the Department solicited three quotes chose the lowest qualified quote, presented it to Township Council for approval and then awarded to the Contractor. These contracts and services were awarded under the HUD guidelines and funding. We are reviewing the Office of Community Developments practice against the New Jersey public contracting

* Comment

* We have revised our report based on information provided in the response.

requirement and will make the necessary corrections immediately.

- BK Construction \$9300.00, the process that was done included an estimate and scope of services to be performed by our in house Estimator who works in the Office of Community Development. Based on this estimate the Office solicited three quotes chose the lowest qualified quote, presented it to Township Council for approval and then awarded to the Contractor. These contracts and services were awarded under the HUD guidelines and funding. We are reviewing the Office of Community Developments practice against the New Jersey public contracting requirement and will make the necessary corrections immediately.

*

Comment

- Big Chuck General Contractors \$35,892, the process that was done included an estimate and scope of services to be performed by our in house Estimator who works in the Department of Community Development. Based on this estimate the Department solicited three quotes chose the lowest qualified quote, presented it to Township Council for approval and then awarded to the Contractor. These contracts and services were awarded under the HUD guidelines and funding. We are reviewing the Office of Community Developments practice against the New Jersey public contracting requirement and will make the necessary corrections immediately.

*

Comment

- Warnock Fleet \$33,477.54, purchased under Morris County Coop Contract 15-C item three of which the Township is a member and therefore this purchase is an exempted from required NJ contracting laws. Since this practice was used no Township Council resolution was required for this purchase. FYI, attached is the Township resolution authorizing our membership to the Morris County Coop.(see attached Exhibit 13)

*

Comment

- The expenditure of \$13,650.00 to Yourway represents payments for release of permit fees to the vendor upon the completion of work. Upon reviewing the contract we realize these payments were not all made within the Townships stated six month policy. While this has been the practice for over eighteen years according staff we have advised them that any future return of permit fees must be within the specified six month time

frame and we will monitor this practice accordingly.

- We had a contract with Scarinci & Hollenback for labor counsel included in said contracts are a proposal and scope of services. The payment of \$15,189.22 represents the monthly retainer payment for December 2007 in the amount of \$4,166.66, the January 2008 in the amount of \$4,166.66, due under the contract. In addition to the following fees in the amount of \$2,124.72 for Union IWA,SOA, PBA, Matter #010386.0400, \$1,380.18 in the Matter # 010386.01300, \$2713.50 in the Matter #010386.01200, \$475.00 in the Matter #010386.01600 and \$162.00 in the Matter #010386.06000. Attached are both the contract and purchase orders for service and payments. Furthermore, this contract was awarded under the open and competitive bid process.(**Exhibit 14**)

- We had a contract with Bruno & Associates for Grant Consultant, attached is the resolution and contract which includes the scope of services. These contracts were done in accordance with the open bid process. The payment of \$68,291 represents nine monthly payments for the FY 2008 contract.(**Exhibit 15**)

- We had a contract with Samuel Klein & Company for Auditing Services, attached is the resolution and contract which includes the scope of services. These contracts were done in accordance with the open bid process. The payment of \$149,960 represents partial payments for the FY 2006 and 2007.(**see attached Exhibit 16**)

*
Comment

- The payment in the amount of \$165,483.75, to PSEG is a part of the same purchase order referenced earlier in this response. We maintain the public service, gas and electric bill past due payment made in July 2007 was a function of an adjustment made for prior year's usage and was not an ongoing issue. Arrangements for additional payments have been made as per the attached (**see attached Exhibit 17**) Resolution is not required for ongoing service that the Township utilizes. However, the item was posted on the bill list and approved by Council.

Furthermore, these bills were being monitored by the CFO and the original invoices were

in the CFO's office who had stepped in to negotiate on behalf of the Township. Questions regarding this issue could have been addressed if the CFO had been interviewed regarding the questions.

- The four disbursements totaling \$57,500 related to grants agreements we acknowledge that the agreement states that the party will be reimbursed upon completion of the program however the Townships practice has been to expend these funds in the beginning of the contract verses the end of the contract year since these organizations are in financial need. The contracts are being revised to accurately reflect the Townships practice. Attached are the receipts for said expenditures and a format for future fiscal reporting is being established.(see **attached Exhibit 18**)

In summation: Internal Controls are existent and fully adhered to in the Township of Irvington. Examples of internal controls are found in NJSA 40A:5 Local Fiscal Affairs Law and Municipal Finance Administration in New Jersey 7-14. Examples include:

- Segregation of duties of finance department employees. For example the person responsible for producing checks does not reconcile the bank accounts. The payroll supervisor does not reconcile the payroll account. Purchasing and Accounts Payable are two separate functions.
- Adherence to the 48 hour deposit rule is complied with
- Uses of pre-numbered checks, purchase orders, requisitions are complied with.
- Provision for inventory control – fixed assets are complied with
- Record of all cash receipts as soon as cash is received is complied with
- All checks are stored in the vault
- Signature stamps are locked up
- Accounting program limits employees access to critical data

We do have an accounting system used by a number of municipalities across the state which is the Edmunds system. This system can provide a complete and accurate

accounting of all the township's fiscal requirements. If there were question regarding this matter, the chief financial officer should have been thoroughly interviewed, not merely asked for information. The Edmunds Financial Accounting System is one of the most reliable and fully functional systems in the state.

The Township of Irvington will continue to evaluate the operational and fiscal control environment. The policies written and unwritten dictate the internal controls as outlined in examples above.

Information Technology:

Findings

Irvington's infrasture technology environment is mismanaged, lacks clear priorities and direction, formal policies and procedures do not exist for acceptable use of computers, use of email, remote access, granting visitors access, password protection, and granting/terminating employee access to system. Our review also found that little is done to manage Irvington cell phone distribution and usage.

Response

As indicated above we have done an extensive review of the cell phone plans and practices as a function of this review the following has been done:

- The cell phone company has been changed to assist as in getting better value for the services rendered a number of phones have been removed from various non essential employees. Services including text messaging etc., has been limited on phones.

Currently, we are awaiting credits for items in contention which is why we have carried a balance forward as evidenced by the attachments.

- The International calling is a function of three key staffers using their cell phones for Township related business while on vacation.(see attached Exhibit 19)

We are now moving forward with the enforcement of the policy as it relates to overage charges as evidenced by the attached.

In 2002, when I became Mayor the Township had a part-time IT employee, there was no IT Department. Furthermore, the systems themselves were antiquated and in some cases obsolete. We have been diligently working to increase the personnel and create a working IT system.

We find this audit report regarding IT operations to be specious at best. The Supervisor of Data Processing Systems reports to the BA, no auditor ever interviewed the BA about our IT policy, standards and procedures. To call IT “mismanaged” therefore is fallacious and dangerous as to the report’s findings and recommendations.

Furthermore as evidenced by the attached a full evaluation of need and a cost projection has been performed and currently we are awaiting State approval of the financing in the amount of \$140,000 for the items that need to be purchased and anticipate a response shortly. In addition, a copy of the updated network diagrams is attached for review.

Were the BA interviewed during the audit about IT the following would have reported:

- **No user can access secure and confidential information if they do not own or maintain the data.**
 - All levels of security are managed on the system through user profiles, which are installed by the Supervisor of Data Processing Systems
 - The Server Room is locked whether IT staff is inside or the room is not occupied.
 - Most users cannot change their desktops; those that can are granted permission by me and the Supervisor of Data Processing Systems when requested by a Department head.
 - Most users cannot install software applications on their hard drives; all such installations require administrative rights which they do not have. Those that

can install are granted permission by me and the Supervisor of Data Processing Systems.

- The Supervisor of Data Processing Systems has installed “snooping” software on all workstations, which allows him to monitor desktop activity.
 - At separation from employment; users profiles and logons are deleted
 - There is no one in the Business Administrators office to my knowledge that is backing up what the report refers to as “financial systems data” to a USB drive and sharing it with other municipalities. This would have been brought up with me should I have had the courtesy of an interview. In fact, the report does not define “financial systems data”. The report is challenging in tone about this loosely stated term that has dangerous implications if it is not specifically defined.
- **Only designated employees have access to the internet.**
 - User profiles determine who has internet access and what sites they can visit.
 - The Supervisor of Data Processing Systems maintains a list of who has permission to access the internet; permissions are granted by the BA and the Supervisor of Data Processing Systems based upon written request of Dept. heads.
 - **Only two users have remote access to their workstations:**
 - The BA and the Asst Comptroller (Julie Gambert) are able to dial into their workstations using GoToMyPC™ software. The BA personally monitors Julie’s remote access.
 - **Vendors who have remote access:**
 - Vendor access was restricted in 2004.
 - A vendor who manages the payroll/employee database access the network under control of the BA through Julie Gambert’s workstation. This vendor is limited to the access Ms. Gambert has since he is using her profile to upload

data to the Human Resources application he installed. This HR application is used by Julie Gambert, Ann Dean-Spearman and BA.

- **Data Protection**

- Until 2006 data was backed up to a tape drive. That tape drive no longer functions. As part of a complete new system purchase, tape drives and software will be installed. This urgent purchase is underway.
- At present, the Township has central databases serving applications on its network to conduct requisitioning and payroll through the Dept. of Revenue and Finance The integrity of vendor-managed data is certified and maintained by the vendors, who implement disaster recovery

- **Police and Administration Data Center Integration**

- Currently, IT is managing Police and the Administration networks. The Supervisor of Data Processing Systems is working with two technical support consultants hired through a formal bid process. The consultants report to the Supervisor of Data Processing Systems, who approves and pays their invoices. For police applications support Sgt. Clinton Franks liaisons with the Supervisor of Data Processing Systems.

- **Website, Domains and email accounts**

- The Township's website is hosted by In-Command Technologies at a fee of just over \$14,000 annually. In Command hosts Township email addresses, which are being used to conduct government business. Initially only managers had emails, now we are expanding email service to other employees. Policy is being drafted to cover appropriate email use as we bring on a mix of users.
- Within six months the Township will host its own email accounts and establish Exchange Server communications between departments.(see attached Exhibit 20 & 21)

- The BA maintains a list of all email accounts and manages security logons. This list would have been made available to the auditors had they interviewed the BA.
 - Police emails are being established through In-Command Technologies.
 - The Police will maintain a distinct domain name from the Administrations domain. This will permit police applications that are web-based to operate on the internet.
- **Comprehensive Upgrade of the Administration Network**
 - We are now migrating the Irvington network from a loose connection of failing and very old workstations and servers. The physical system was obsolete in critical ways in 2002 and now warranties have expired on all the servers. At that time in 2002 the Township had no policy, standards and procedures to guide and manage secure and confidential use of the network. By 2003 the operating system was standardized and new workstations were being purchased to replace failing computers. There were no official email accounts. Most employees used the free Hotmail account for emailing.
 - By 2006 a full systems assessment was completed to document the network and to recommend a comprehensive purchase of new servers, workstations, peripherals, operating systems and management software. These specifications are available for the auditors to review. No auditor asked for a copy. Also, the Supervisor of Data Processing Systems could not have said there were no plans to replace the tape drive, because he produced the specifications that include this equipment.
 - At present we have priced this new system at just over \$140,000. A financing plan is being reviewed by banks to finance this new system.
 - This system will be implemented with a standardization of the network and the end user environment and establish controls on data integrity and internet access.

- New policy, standards and procedures will be required because we will stratify the users by their power requirements and install the appropriate workstations and software packages to support their tasks.
- Currently routers and switches are not labeled. IT is able to identify all routes and cabling layouts; these pathways will be revised under the upgrade where all installed hubs, switches and routers will be labeled to reflect the new network layout.

- **Computer Inventory**
 - The Supervisor of Data Processing Systems maintains an accurate inventory of computers and peripherals. The report notes that the Township purchased 77 computers from the vendor (I assume reference is made to Dell Computers). The Township did not purchase 77 Dell Computers. The inventory cited included pieces purchased prior to 2004 from a variety of vendors.
 - The 8 computers were purchased with grant funds and were not approved nor tracked by IT. Alerted in 2004 by the Supervisor of Data Processing Systems of these random computer purchases I immediately put a process in place to keep track of computers and peripherals. I ended the past practice of allowing departments to requisition computers in their individual budgets. I now purchase computers for all departments through an O/E line in the Business Administrator's budget. Grant funded computer purchases must be reviewed and specifications drawn up by IT. This practice is in place now. It allows IT to standardize equipment, to manage inventory and to upgrade computers systematically based upon power needs, age of computers and type of computers (PDAs, laptops, desktops) needed for specialized work.
 - The report states it took a several weeks for the Supervisor of Data Processing Systems to identify the eight "missing computers". This is a fabrication. The Supervisor of Data Processing Systems was asked to identify these computers. He advised the auditors the next day that he had

the list. The auditors told him they would not be able to see him and take the list for a couple of weeks. Furthermore, at no time did the Auditors visit the other Township facilities where these computers were located even though a number of appointments were made with staff to do such. This is why the report is suspicious as to its intentions and is full of baseless insinuation.

- **Cell Phone Management**

- The Township has a written cell phone policy distributed by Department heads to their staff. The policy requires signatures upon a receipt of the cell phone acknowledging adherence to the policy.
- Cell phone usage is managed in the Business Administrator's office. All questionable calls are addressed. The auditor makes a statement about long distance phone calls, but did not take the time to discover how such calls were resolved. This makes the audit suspicious as to the auditor's ulterior motives.(see **attached Exhibit 22**)

- **Evaluation of IT staff**

- The report makes unsubstantiated insinuations about the qualifications of our Supervisor of Data Processing Systems and our Data Processing Technician. The report did not mention the fact that the evaluation gave both employees effective ratings. While mindlessly condemning IT operations the report looks to scapegoat staff. Based upon my above comments it seems IT is managing well and this staff gets the credit. This part of the report either has to be footnoted with specific references to the performance evaluation or take it out entirely.
- The evaluations were their first as employees. The reference made in the report to the 45% weighting on work goal objectives mistakenly treats these goals as items upon which staff were assessed scores.: These goals are forward looking: they are the planned tasks that staff and the BA agreed would be undertaken over the ensuing months upon which they

will be evaluated. The auditors should have discussed this evaluation with the BA to understand how it was administered and what the BA was seeking to achieve.

Personnel and Payroll:

Findings

Employees have not received performance evaluation, personnel files, qualifications and outside employment by key municipal staff.

Response

Personnel files are maintained in the BA's office, while departments maintain their own personnel and/or payroll files the Townships official files are maintained in the BA's office. Therefore, testing files in various individual Departments verses in the BA's office I'm sure contributed to your findings. Furthermore, since there was no actual interview with the BA your auditors could not determine where items should be contained. Furthermore, as you are aware, the Municipality is mandated to abide by the governing Civil Service rules therefore all employees have a civil service title, job description and are qualified for their positions.

Attached you will memo's which are under review for distribution regarding the Township's practice of evaluations and will be implemented by August 2009.(see **attached Exhibit 23**)

The Assistant Controller, CFO and Township Attorney are all qualified and work full-time in the township of Irvington regardless of their outside employment. To imply that because a person holds more than one job hinders their ability to be effective is totally in unacceptable and speculative at best. Furthermore, there was never a request made to verify the hours any of the employees referred to that work in the Township of Irvington. Lastly, the accrual of pension benefits based on a employees employment status has no relevance to report therefore I would question the appropriateness of including these

*
Comment

* We have revised our report based on information provided in the response.

comments outside of personal attacks on staff. Attached you will find memo's from the Assistant Comptroller, The CFO and the Township Attorney regarding their employment status. (see attached **Exhibit 24**)