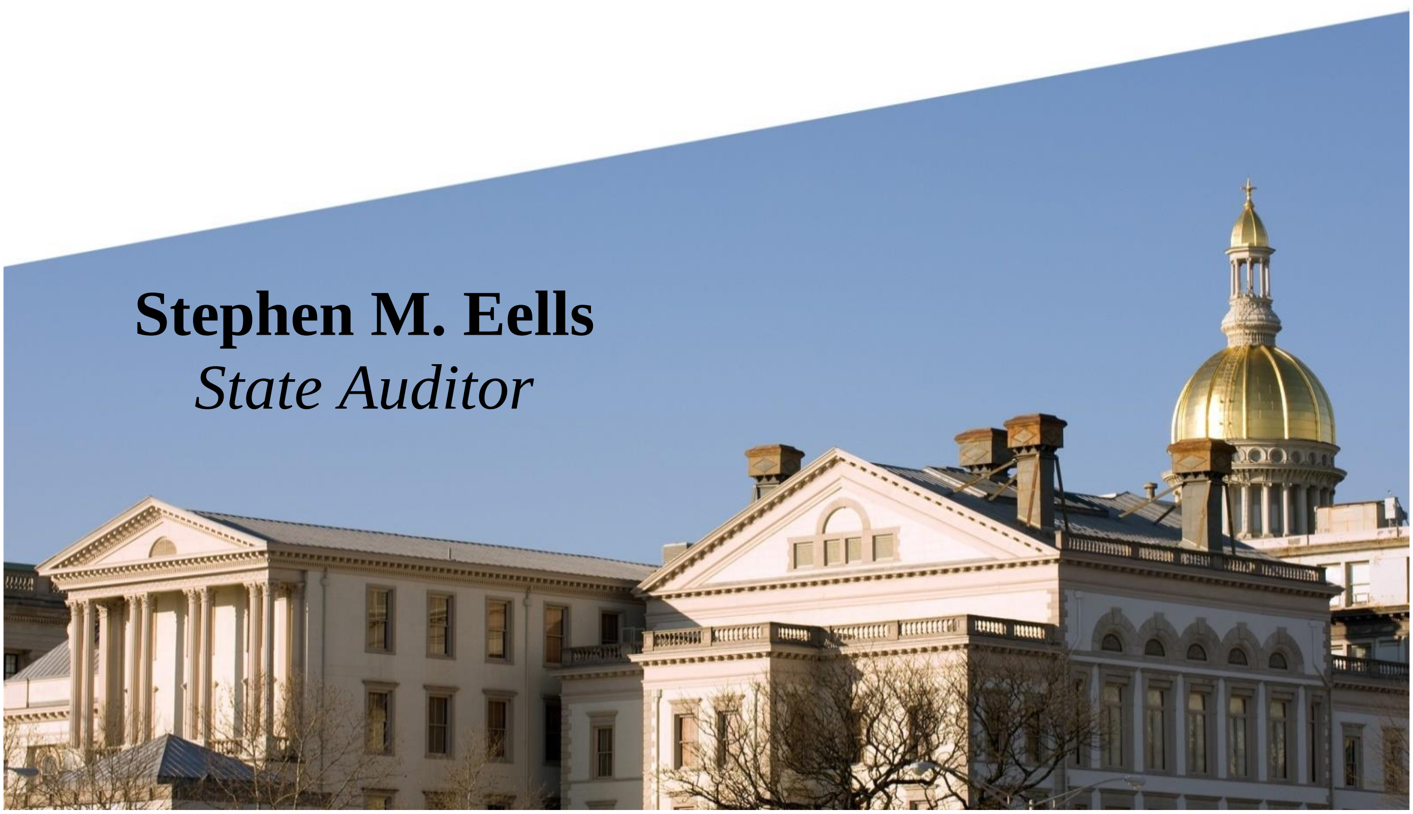
New Jersey Legislature
Office of LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR

2018
Annual Report

Improving the accountability of public funds and strengthening the operations of government



Stephen M. Eells
State Auditor

Message from the State Auditor

The Honorable Members of the Senate and General Assembly

Ms. Peri A. Horowitz
Executive Director
Office of Legislative Services

I am pleased to present to you the *Annual Report of the New Jersey Office of Legislative Services, Office of the State Auditor* for calendar year 2018. In conformance with our responsibilities to perform financial, performance, and compliance audits, all state agencies are audited periodically using a risk-based approach. We issued 18 reports during 2018 which identified $298.5 million in potential cost savings, improper payments, and revenue enhancements. In addition, the state continues to save substantial dollars as a result of the resolution of issues previously reported by the Office of the State Auditor. If you or members of your staff would like additional information or a personal briefing, please contact me.

Our mission is to improve the accountability of public funds and to improve the operations of government. We serve the public interest by providing members of the Legislature and other policymakers with unbiased, accurate information, and objective recommendations on how to better use public resources. In addition to fulfilling our audit mission, we have focused on maximizing the quality of our services and maintaining communication with the Legislature and the agencies we audit. We are committed to providing high quality audit reports. You may be assured we will continue our efforts to improve state government accountability to the Legislature through an effective and constructive audit process.

Stephen M. Eells
State Auditor
May 7, 2019

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INTRODUCTION

BACKGROUND

The Office of the State Auditor, which is in the legislative branch of government, was originally established in 1934 pursuant to P.L. 1933, c.295. A number of statutory amendments dealing with the powers and duties of the State Auditor were enacted in the ensuing years. The Office of the State Auditor is within the Office of Legislative Services under the provisions of the Legislative Services Act.

The State Auditor is a constitutional officer appointed by the Legislature for a term of five years and until a successor shall be appointed and qualified. On February 11, 2010, Stephen M. Eells, CPA, was confirmed by a joint session of the Legislature as the State Auditor.

The organization of the office within the legislative branch permits the State Auditor to be independent of the executive and judicial branches of government. This independence is critical in terms of meeting professional standards and in providing fair and objective reviews and audits of governmental operations.

Under the provisions of Article VII, Section I, Paragraph 6 of the State Constitution and N.J.S.A. 52:24-1 et seq., the Office of the State Auditor is required to conduct post-audits of all transactions and accounts kept by or for all departments, offices, and agencies of state government. Reports are submitted to the Governor, the Legislature, and the Executive Director of the Office of Legislative Services.

The Public Laws of 2006, Chapter 82 authorized the State Auditor to conduct a performance review of any program of any accounting agency, any independent authority, or any public entity or grantee that receives state funds. The law also requires the State Auditor to conduct a follow-up review to determine agency compliance with our audit recommendations. In addition, at the request of the legislative leadership or the Legislative Services Commission, the State Auditor conducts studies on the operations of state and state-supported agencies with respect to their efficiency, internal management control, and compliance with applicable laws and regulations.

INTRODUCTION

MISSION STATEMENT

The State Auditor provides independent, unbiased, timely, and relevant information to the Legislature, agency management, and the citizens of New Jersey that can be used to improve the operations and accountability of public entities. In addition, the State Auditor provides assurances on the state's financial statements annually.

VISION STATEMENT

The State Auditor and his staff will approach all work in an independent, unbiased, and open-minded manner.

The State Auditor will provide timely reporting to the Legislature, agency management, and the citizens of New Jersey.

Reporting will be in clear and concise language so it is understood by all users of the report.

Reporting will include recommendations on how to improve the workings of government and how to strengthen agency internal controls.

Reporting will include assurances on the financial operations of the state.

The State Auditor and his staff will perform all work in a professional manner utilizing appropriate standards.

ACCOMPLISHMENTS

During calendar year 2018, we identified $298.5 million in new cost savings, improper payments, and revenue enhancements. A schedule of cost savings, improper payments, and revenue enhancements is presented on page 4. The office provided training in various topics at no charge. Our compliance review on findings related to audit reports issued during the fiscal year ended June 30, 2017 disclosed that 71 percent of our recommendations have been complied with, or management has taken steps to achieve compliance. Over a two-year period, the rate of compliance for fiscal year 2016 recommendations rose to 92 percent.

The office performs the annual financial audit of the state's Comprehensive Annual Financial Report (CAFR). The CAFR engagement includes the audit of 201 funds and component units which had a full accrual accounting total asset value of $218 billion at June 30, 2018.

INTRODUCTION

PROFESSIONAL STANDARDS

The Office of the State Auditor's audits are performed in accordance with G*overnment Auditing Standards* issued by the Comptroller General of the United States. These standards require that our operations be reviewed every three years. In 2017, the National State Auditors Association conducted a review of our system of quality control which resulted in a Peer Review Rating of Pass, the highest rating attainable. The report received from this review is presented on page 5.

OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS
REPORTS ISSUED DURING CALENDAR YEAR 2018
(Expressed in Thousands)

REPORT	COST SAVINGS, IMPROPER PAYMENTS, AND/OR REVENUE ENHANCEMENTS
Belleville Public Schools	$ 1,356.4
Casino Reinvestment Development Authority	26,156.4
Department of Banking and Insurance	
Administration	172.7
Department of Corrections	
Garden State Youth Correctional Facility	126.0
Department of Human Services	
Division of Medical Assistance and Health Services	
NJ FamilyCare Eligibility Determinations	183,260.8
Transportation Broker Services Contract-Utilization	837.3
Division of Medical Assistance and Health Services and Division of Aging Services	
Managed Long-Term Services and Supports	76,234.7
Department of Law and Public Safety	
Division of Law	180.9
Department of the Treasury	
Division of Pensions and Benefits	
Health Benefits Administrator Contracts	3,629.4
Division of Taxation	
Tax Debt Collection	6,561.0
Total Cost Savings, Improper Payments, and Revenue Enhancements	$ 298,515.6

National State
Auditors Association
An Affiliate of NASACT

NSAA

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PEER REVIEW REPORT
June 9, 2017

Honorable Stephen M. Eells
New Jersey State Auditor
125 South Warren Street
Trenton, NJ 08625

Dear Mr. Eells:

We have reviewed the system of quality control of the New Jersey Office of the State Auditor (the office) in effect for the period May 1, 2016 through April 30, 2017. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with professional standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with professional standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all design matters in the system of quality control or all compliance matters with the system. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the New Jersey Office of the State Auditor in effect for the period May 1, 2016 through April 30, 2017 has been suitably designed and was complied with during the period to provide the audit organization with reasonable assurance of performing and reporting in conformity with *Government Auditing Standards* in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. **The New Jersey Office of the State Auditor has received a peer review rating of *pass*.**

Craig M Murray

Craig Murray, CPA, CIA
Concurring Reviewer
External Peer Review Team
National State Auditors Association

Norman Bratton

Norman Bratton, CPA, CIA, CFE, CGFM
Team Leader
External Peer Review Team
National State Auditors Association

AUDIT REPORTS

TYPES OF AUDITS PERFORMED

Financial Audits

Financial audits are designed to provide reasonable assurance about whether the financial statements of an audited entity are fairly presented in conformity with generally accepted accounting principles. The primary annual financial audit conducted by the office is the state's Comprehensive Annual Financial Report (CAFR) which is published by the Department of the Treasury. In addition, we also publish the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* which is an integral part of the CAFR opinion audit. Three other financial audits were issued in calendar year 2018.

Performance Audits

The objectives of this type of audit are to determine whether financial transactions are related to an agency's programs, are reasonable, and are recorded properly in the accounting systems. This type of audit may also focus on specific performance issues. Where appropriate, these engagements may also provide economy and efficiency comments. Audits are selected using a risk-based approach. Larger departments are audited on a divisional, agency, or program basis rather than on a department-wide basis because of their size and complexity. We completed 11 performance audits in calendar year 2018. These audits encompassed $57.9 billion and $781.9 million of expenditures and revenues, respectively.

Information Technology (IT) Audits

The objectives of this type of audit are to determine whether the data maintained by a particular computer system is reliable, valid, safeguarded, and recorded properly; whether agency networks are properly managed to provide for business continuity and the prevention of system abuse; and whether system development and maintenance is performed in accordance with guidelines and best practices. During calendar year 2018, we reported on the Department of Human Services, Division of Family Development, Office of Child Support Services, New Jersey Kids Deserve Support (NJKiDS) Computerized System.

The office has trained all audit staff on the basics of integrated auditing, where non-IT field auditors learn how to review IT controls while performing other audits. If the system they are reviewing has more complex controls, an IT auditor can be consulted or the system itself can be assigned to the IT unit as a separate audit. This effort will allow for review of a greater number of IT controls.

TYPES OF AUDITS PERFORMED (continued)

School District Audits

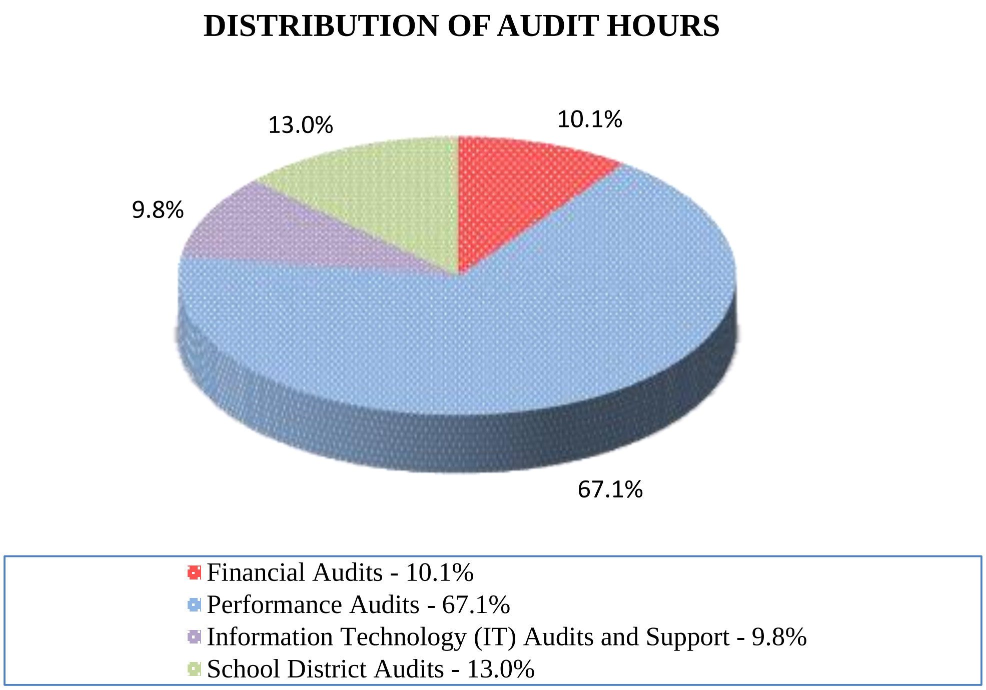
N.J.S.A. 18A:7F-6d authorizes the Office of the State Auditor to audit the accounts and financial transactions of any school district in which the state aid equals 80 percent or more of its net budget for the year. In addition, in accordance with N.J.S.A. 18A:7A-57, the State Auditor is authorized to perform a forensic audit of school districts with a general fund deficit and meeting additional specific criteria as stated in the statute. We audited one such school district in calendar year 2018.

Legislative Requests

From time to time the Legislative Services Commission and Legislative leadership request the State Auditor to conduct special projects of the fiscal practices and procedures of the state and state-supported agencies, and to report findings to the Commission.

DISTRIBUTION OF AUDIT HOURS

The distribution of audit hours used in performing audits during calendar year 2018 is depicted on the following chart.



AUDIT REPORTS

HOW AND TO WHOM AUDIT REPORTS ARE ISSUED

Findings and recommendations developed as a result of our independent audits are intended to provide accountability and improvement of government operations. All reports are discussed with agency officials prior to finalization and modifications are made where warranted. Management comments to the final report are incorporated in the document. All issued reports of the Office of the State Auditor are public documents and are available on the New Jersey Legislature's web site at www.njleg.state.nj.us/legislativepub/auditreports.asp.

Reports are statutorily required to be sent to the:

- Governor
- President of the Senate
- Speaker of the General Assembly
- Executive Director of the Office of Legislative Services

In addition, copies of reports are routinely sent to the:

- Legislature (all members)
- Executive Directors of partisan staff
- Management of the audited entity
- State Treasurer
- State Comptroller
- State Library

ORGANIZATION

HUMAN RESOURCES

The Office of the State Auditor is one of eight units within the Office of Legislative Services. The State Auditor's office is comprised of 92 professional and 4 support staff positions. All auditors must have a bachelor's degree in accounting or a related field and a minimum of 24 credit hours in accounting. As of December 31, 2018, fifty-five staff members, 62 percent of the 89 filled professional positions, possess professional certifications or advanced degrees. Working for the office qualifies for the one-year intensive and diversified experience needed to become a Certified Public Accountant in the State of New Jersey.

The office provides a minimum of 80 continuing professional education credits biennially and diversified work experience to enhance each individual's professional development. The audit staff attends professional development programs encompassing a myriad of accounting and auditing topics. In addition, staff members actively participate as officers, board members, and committee members of local, state, and national accounting and auditing organizations, including the Association of Government Accountants, Institute of Internal Auditors, National State Auditors Association, and New York/New Jersey Intergovernmental Audit Forum. The office also participates in the national peer review program administered by the National State Auditors Association.

The office continues to provide training in New Jersey Law and Ethics to its staff as well as to other state employees requiring the course. Staff also provided various governmental auditing presentations to university students and international professionals seeking to learn about the operations of the Office of the State Auditor.

AUDIT STAFF

The audit staff is the primary operating group in the office. They plan, conduct, and control the audit engagements and prepare and edit the reports. The audit teams report the results of their work to the auditee on an ongoing basis and at the conclusion of the engagement by means of a written report. In an effort to develop expertise, field managers are assigned specific departments. This practice enhances the quality and efficiency of our audits and ensures all programs are audited within a reasonable cycle. Information technology support is also provided by our IT staff.

The office maintains six active committees staffed by individuals in various titles to provide guidance in the areas of information technology (hardware/software and information), personnel, planning, policy, statistical sampling, and training. An intranet site is also maintained that contains staff information, state budget and appropriation information, and commonly used accounting and auditing research and reference internet sites that the audit staff can access through their computers.

QUALITY ASSURANCE

The quality assurance staff is responsible for technical compliance and quality control, oversight of staff training, and research of technical issues. Quality assurance is achieved through reviews of working papers and reports to ensure accuracy and adherence to professional standards. The quality assurance staff, through its research of accounting and auditing issues, also responds to surveys, questionnaires, and exposure drafts relating to proposed accounting and auditing standards.

ADMINISTRATIVE STAFF

The administrative staff processes, files, and distributes all reports. This group is responsible for the office library, purchasing and maintaining office supplies, and other general administrative functions.

OFFICE OF THE STATE AUDITOR
STAFF ROSTER
As of December 31, 2018

STATE AUDITOR

Stephen M. Eells, CPA
Robyn Boyer, Administrative Assistant

ASSISTANT STATE AUDITOR

John J. Termyna, CPA

ASSISTANT STATE AUDITOR

David J. Kaschak, CPA, CGFM

Jill Bodnar, Secretary

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Paul R. Baron, CPA
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Robert F. Gatti, CPA
Anthony J. Glebocki, CPA, CFE, CGFM
Linda Maher, CGFM
Charles Y. Paslawsky, MAccy
William D. Robinson, CPA
Thomas Troutman, CPA, CIA, CGFM

PRINCIPAL AUDITORS

Daniel Altobelli, CPA, CISA, CEH
Kenyona Booker, CGAP
Scott Brevet, CPA
Cynthia S. Burdalski
Donna M. Castelli, CICA
John J. Coyle, CPA
Tanya Cuccia, CISA, CGAP
Luz K. Dow, CPA
Sean F. Duffy
Lorien Flannery, MAccy
Rene Gervasoni
Kathleen Gorman
Vishal P. Jhaveri, MBA, CPA
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Richard J. McHale
Kristen Menegus, CGAP
Smaragda Ng, MBA
Stacey O'Brien, MBA, CPA
John R. Pullen
Robert Rizzo, CPA
Donna M. Shemansky
Brian K. Sherfesee
Hiral Singh, MBA, CPA
Jesskim So
Christopher D. Soleau, CGAP
Michael A. Tantum, MBA
Stephanie A. Titus, MBA
Irene Torunoglu, MAccy, CPA
Kurt T. Zadworney, CICA

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Diana Choe
Andrew D. Cipriano, CFE
Morgan Cole
Denise Damico, MBA
Devan Davies
George Derbaly, MS, CPA
Lesia Didukh, MBA
Meghan Ellis
Helene Evich, CPA
Nikki Farrell, CICA
Tanja Fessler
Eric G. Fonseca
Daniel Garcia
Timothy R. Garcia
Richard Grahovac, CFE, CGFM
Iryna Gryniv, MAccy
Rachel A. Haines
Kevin Hall
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Brian W. Larkin, CIA
Taylor Leavy
Douglass W. MacArthur
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Joseph Pica
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Michael Salberta
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Meghan Stillwell
Jennifer Suchan, CISA
Justin Toldt, MS, CPA
Shrushti Trivedi

ADMINISTRATIVE STAFF

Megan Osorio, Support Services Assistant
Barkley Sury, Support Services Assistant

IT SUPPORT STAFF

John L. Garrett, Data Analyst

Certification Legend:

CEH – Certified Ethical Hacker
CFE – Certified Fraud Examiner
CGAP – Certified Government Auditing Professional
CGFM – Certified Government Financial Manager
CIA – Certified Internal Auditor
CICA – Certified Internal Controls Auditor
CISA – Certified Information Systems Auditor
CPA – Certified Public Accountant
CRMA – Certification in Risk Management Assurance
MAccy – Master of Accountancy
MBA – Master of Business Administration
MS – Master of Science

ACCOMPLISHMENTS AND RESULTS

SUMMARY

This section highlights six audits issued during the past year that contained cost savings, improper payments, and revenue enhancements totaling $297.2 million. Information on these reports is presented on pages 14 through 66. Other reports of interest that contain significant findings and observations from five additional audits are on pages 67 through 74. In addition, our reports contain non-monetary findings addressing areas of noncompliance with laws or regulations, weaknesses in internal controls, and economies and efficiencies to improve operations.

All reports issued in calendar year 2018 are identified on a schedule on pages 75 through 76 and are available for review on our website.

BELLEVILLE PUBLIC SCHOOLS

Security System, Telecommunication, and Information Technology (IT) Contracts

The Belleville Public Schools (district) awarded contracts without proper competition or regard for cost.

Between March 2013 and April 2014, the district entered into multiple contracts with a technology vendor at a cost of nearly $2.6 million.

Telecommunication and Security Technology Audit

In January 2013, the district invited a technology vendor to make an informal presentation regarding augmented security and communications for the district. The technology vendor's president was introduced to the district by the district's legal counsel. Following the presentation, the technology vendor submitted a written proposal to audit the network infrastructure including inspection of video surveillance devices, telecommunications devices, physical security devices, intercom, bell annunciation, public address system, and the interaction and configuration of these technologies. Upon completion of the audit, the technology vendor was to prepare a detailed report of its findings and provide a basic list of recommendations. The proposal was priced at $11,980. In the report submitted to the district in March 2013, the technology vendor concluded that:

- the CCTV camera system being installed was "plagued with issues", was extremely limited, and there was a number of cameras being installed that was sufficient for general observation but not evidentiary recapture,
- the telephone system was in very poor shape and the phones installed were at end-of-life, rendering the entirety as unacceptable,
- the IT network infrastructure was in poor shape with cabling installed in a haphazard fashion, and
- the district server room, located in the board office, was not secured.

Three days following the submission of the report, on March 4, 2013 the technology vendor sent the district a proposal to prepare equipment specifications for telecommunication and security technology based on the submitted report. The cost of the list and design specification was $5,500. We were not provided with a copy of the specification list.

BELLEVILLE PUBLIC SCHOOLS (continued)

Enterprise User Service Agreement

On March 14, 2013, the district entered into the Enterprise User Service Agreement (EUSA) with the technology vendor for providing telephone and internet services for $10,319 per month, an annual cost of $123,828. The term of the contract was 36 months with automatic subsequent renewal on a monthly basis unless written notice of non-renewal was provided at least ten days before the end of the month. We were originally told that there was no formal bidding process conducted for the service, however we were later provided with copies of some quotations obtained by the district from other service providers. Unlike the quotes from the other providers, the EUSA did not include desk phones as part of the agreement even though the vendor previously concluded that the existing phones were at their end-of-life and were also part of the district's telecommunication service specifications. The technology vendor was approved to provide the support for communication and internet access during the March 18, 2013 board meeting at the aforementioned cost per month which, as the board resolution stated, was reimbursable at 71 percent via E-rate (the commonly used name for the Schools and Libraries Program of the Universal Service Fund, which is administered by the Universal Service Administrative Company (USAC) under the direction of the Federal Communications Commission. The purpose of the program is to make telecommunications and information services more affordable for schools and libraries in America). The EUSA made no reference to E-rate or to any potential reimbursement. The technology vendor was not an approved E-rate vendor at the time the resolution was passed and ultimately failed to secure the approval. In July 2015, the USAC sent the district a request for further information and documentation concerning the district's competitive bidding and vendor selection process raising concerns about the district's compliance with the applicable state and local procurement requirements and federal E-rate program rules. The district was not approved for the EUSA contract reimbursements, resulting in an estimated loss of over $154,000 in federal reimbursements.

Security and Telecommunication Contract

Effective June 1, 2013, the district signed a $1,950,000 agreement with the same technology vendor for installation and services of security and telecommunication equipment. The technology vendor was the only bidder for the services. The invitation to bid was advertised by the district on April 25, 2013 in only one local weekly newspaper. The bid due date was set for May 9, 2013 allowing other bidders only nine business days (excluding the day of advertisement and the bid submission due date) to prepare and submit their bids. As previously stated, in January 2013, the technology vendor was paid by the district to evaluate the security system in place, and in March 2013 for preparing a list and designing specifications for the installation of the necessary equipment, thereby placing the technology vendor at a competitive advantage. While other bidders had nine business days to prepare and submit their bids, it took the technology vendor approximately seven weeks to deliver its initial recommendations and essentially bid on its own specifications. The technology vendor's responsibilities under the agreement included, among other things, hardware support and repair, and installation of all

BELLEVILLE PUBLIC SCHOOLS (continued)

new equipment including the cost of cabling. The technology vendor used unqualified district custodians to perform this installation. Based on the subsequent vendor's evaluation, the cabling used was in violation of industry standards and constituted a fire hazard. The contract specifications included, among other things, nearly 1,000 cameras and 4,700 smart ID tags. The cameras were installed in all classrooms, and their use was strongly opposed by the teachers The cameras were eventually repositioned to the hallways and stairways. The specifications also included over 420 classroom and office phones, PBXs, and port and switch boxes totaling over $124,000. As previously stated (see EUSA on page 5), the cost of phones was included as part of all quotes for telephone and internet services obtained by the district from other vendors. It appears that the technology vendor double-charged the district for this telephone equipment.

The technology vendor was paid for the services in four installments. The first payment of $1.16 million was made in July 2013 but was not supported by a bill. The technology vendor's invoices were provided for the remaining October 2013, January 2014, and March 2014 payments but did not include enough detail to determine the goods and services were provided.

After securing the agreement for installation and services of security and telecommunication equipment, the technology vendor hired relatives of two key individuals of the district. We also noted that there was an individual involved in the execution of the contract that had no official ties to the district. For instance, a meeting was held at the individual's place of business to discuss the installation process. The individual seemed to lead the meeting and was listed in the written minutes as a district board member. According to various district employees, this individual exerted significant influence over the district operations during that time period.

In June 2014, after the technology vendor was paid, the district engaged an outside consultant to perform the infrastructure overview and to answer the question, "what do we have and how is it working?" The consultant's overall impression was that the district's information technology was severely lacking. The report further stated that:

- the new physical security and surveillance system employed some modern technologies but did not integrate properly into the rest of the network,
- the installation of the system components did not always appear professional or consistent,
- access to the system was of great concern as the system was not isolated from the network, and
- the system itself felt to be of a "home-brew" variety and did not justify its immense cost.

According to the report, the technology vendor admitted to accomplishing very little during the past nine months to correct some of the most basic issues. The most troubling observation, according to the report, was that the district already owned a professional-grade surveillance system designed for high-performance, security, and expandability. While the system owned was under the end-of-life status, a new one was available and its pricing was in line with what the district spent on the technology vendor’s home-grown system, which appeared to be pieced together from various components. The systems back-up, according to the consultant, was performed via generally reliable and affordable tape, but a combination of on-site and off-site disaster recovery combined with local vSphere snapshots should have been employed. The consultant also observed that the phone system installed and operated by the technology vendor was generally lacking in terms of features when compared to established IP phone vendors.

Emergency IT Support Contract

On December 9, 2013, at the request of the district, the technology vendor proposed to provide onsite and remote IT support on an emergent basis. We were not provided with a written statement of emergency as required by N.J.S.A. 18A:18A-7. In addition, the contract award seemed to be in violation of N.J.A.C. 5:34-6.1(a) that requires existence of imminent emergency where the need for goods or services could not be reasonably foreseen. The district had an expiring IT support contract and should have engaged in a competitive procurement process in advance. The district also failed to notify the Executive County Superintendent of the emergency contract award, as required by the administrative code.

Outsourcing of IT Department Contract

On February 24, 2014, the district’s board approved a resolution authorizing the award of a five-year contract to the technology vendor for outsourcing of its internet technology department. The district’s request for proposal required potential bidders to be located within 15 miles from the district, therefore limiting the competition. The technology vendor was the only bidder for these services. According to the written agreement, the term of the contract was March 1, 2014 through February 28, 2015. The annual cost of the service was $240,000 payable in equal monthly installments of $20,000. This was $74,000 per year more than the district paid to its previous vendor for similar service. The technology vendor’s responsibilities included software and hardware support and repair, phone, server and desktop support, installation of all new equipment, sole responsibility for all aspects of system administration activities, and back-up and maintenance of all copies of any back-up. The contract also required the technology vendor to have in place a disaster recovery and continuity of operations plan guaranteeing the district continued services, regardless of circumstances. The contract also stipulated that the agreement could be terminated by the district upon a 90-day notice for cause and that either party may terminate the agreement if the other party materially breached the agreement.

Over the Labor Day weekend of 2014, after at least two months of disputes between the district and the technology vendor concerning an overheated server room and the need to replace failing network hard drives, the district’s systems, including accounting and student records, experienced a catastrophic crash.

BELLEVILLE PUBLIC SCHOOLS (continued)

Cancellation of Contracts

In June 2014, the district stopped making payments to the technology vendor and on August 11, 2014 forwarded correspondence to the technology vendor terminating the outsourcing of the internet technology department contract effective 90 days from the date of the letter. At the end of September 2014, the technology vendor initiated a legal action against the district and twice cut off the district's phone services. In December 2015, an arbitrator awarded the technology vendor $305,000 and the pre-award interest from February 21, 2015 to the date of the award at the rate of 2.25 percent. In making her decision, the arbitrator stated that:

- the district had no right to terminate the contracts,
- the district raised no significant performance issues with the technology vendor before its contracts were terminated,
- there was no evidence that the district ever challenged any of the technology vendor's invoices, and
- there was no evidence that the contract placed responsibility for compliance with the E-rate program on the technology vendor.

The arbitrator also found it "striking" that shortly after terminating its contract with the technology vendor, the district entered into a multimillion dollar contract with another firm. In fact, during fiscal years 2015 and 2016, the district spent over $3.9 million with its new IT vendor and nearly $230,000 with the phone vendor. Per the arbitrator, each party was to bear its own attorney's fees. The district's legal fees amounted to about $164,000.

Other Purchases

During fiscal year 2014, the technology vendor was also paid $72,000 for items outside of the above contracts, including $37,000 in Hewlett-Packard maintenance kits for school printers. We were not provided with evidence that these purchases were properly bid or contracted. The review of the technology vendor's invoices for the maintenance kits showed that the vendor acted as a middleman for the purchases. The technology vendor charged the district from $145 to $195 for each kit, a markup of between 15 percent and 39 percent. It appears the technology vendor earned over $7,600 for its middleman role. We also noted that the technology vendor seemed to charge different prices for the same items. The need for the maintenance kits was questionable since the district's printers were at the end-of-life status. In December 2015, the district purchased 405 printers for $60 each, significantly less than the cost of the maintenance kits.

BELLEVILLE PUBLIC SCHOOLS (continued)

Sale, Lease, and Acquisition of Properties

Sale of School #1

The district lost $550,000 in potential resources by selling one if its schools for $1.

In December 2011, the district sold to the Township of Belleville one of its schools, commonly known as School #1, for a price of one dollar. According to the township attorney, the township demolished the school and cleared the property title at the cost of approximately $450,000. In December 2013, the township sold the property to a developer for $1.0 million.

After the school closed, the school property was used by the district to park school buses. Following the 2011 sale, the district had been parking school buses, free of charge, at the township-owned former roller rink located behind the School #9. No formal lease for the use of land was made between the district and township. Instead of giving away School #1 and losing $550,000 in potential resources, the district could have attempted to swap the property for the former roller rink.

Lease of Property

The district leased property from a related party.

In August 2012, the district signed a five-year lease agreement commencing on September 1, 2012. The agreement was entered into with relatives of a district board trustee at the time. The trustee disclosed his relationship with the landlord in his personal disclosure statements for calendar years 2013 and 2014. The monthly rent for the property was $3,200 for a total lease cost to the district of $192,000. The agreement gave the district an option to terminate the lease upon thirty-day notice delivered to the landlord between March 15 and May 15 of each calendar year. The district did not exercise the option.

The agreement was to lease an approximately 50 feet by 157 feet lot with a 2,800 square foot garage structure. According to the district's management, the property was to be utilized for bus parking and for maintaining and repairing buses in-house. Based on our observation, the garage was more of a storage room with an overhead door than an auto repair shop and lacked any special fittings or equipment for bus maintenance or repairs. According to the district's maintenance employees, they were not qualified or knew how to fix buses, the garage was used for an occasional oil change, and the buses were repaired by outside vendors. We also observed that since the garage structure occupied a substantial part of the lot, the space left for parking was limited to five buses.

We questioned the necessity of leasing the property at a cost of $200,000, because after the lease terminated, buses were parked at school properties.

BELLEVILLE PUBLIC SCHOOLS (continued)

Acquisition of Residential Property

The district purchased residential property without proper budgeting and approvals.

N.J.S.A. 18A:20-4.1(b) and N.J.A.C. 6A:26-3.12 (c) require securing the consent of legal voters before acquisition of land by a school district. In addition, N.J.A.C. 6A:26-7.1 (a) does not allow a district to take any action to acquire land prior to attaining Department of Education (DOE) approval. On January 3, 2013, the district acquired the 58 Bellavista Avenue property in Belleville, New Jersey without proper budgeting and proper voter and DOE approval. Documents provided by the district disclosed that the negotiations concerning the purchase of the property started at least three months prior to the acquisition, and the sale closed prior to the January 14, 2013 district's board approval. The district contacted their County Superintendent's office for advice concerning preparation of a board resolution and received a copy of the pertinent administrative code only one day prior to signing the deed.

The property is located between the leased property described in the previous finding and one of the district's schools. The property included a one-family house with a stand-alone masonry garage behind the house. The cost of the property was $165,000 plus closing costs of $4,000. The house was later demolished, and the property paved and converted into a parking lot for school buses. The district spent an additional $30,000 including $24,000 for asbestos removal, nearly $5,000 for asbestos management, and $1,000 for an oil tank removal. These costs do not include the cost of paving material and the cost of labor by district employees. The property is not large enough to accommodate all district school buses.

In general, school district properties are exempt from property taxes. The acquired property was classified as residential subject to property taxes, and the district failed to file the formal request with the township for the tax exemption. In September 2016, the district and the township reached the mutual agreement for the district to pay 2013 and 2014 outstanding property taxes totaling nearly $12,500 plus interest of nearly $5,300. The property was deemed tax-exempt for 2015, 2016, and 2017 through municipal resolutions.

In February 2017, the district requested permission from the township to erect a 2,400 square foot steel building on the property. After spending nearly $400,000 on the property lease and the parking lot, the buses were parked throughout the various schools, as they could have been from the start.

BELLEVILLE PUBLIC SCHOOLS (continued)

Procurement

Special Education Services Contract

Related party relationships were not disclosed and competitive bids were not obtained prior to engaging in a questionable contract.

During fiscal year 2012, the district contracted with a vendor to provide special education services including physical and occupational therapy, applied behavior analysis, home observations, and evaluations for children for an individual educational plan. According to district employees we interviewed, the vendor's owner was a friend and former co-worker of the district's Director of Special Services who was originally hired for the position during fiscal year 2012 and became the district's Superintendent in September 2012. The vendor's owner was also a relative of the district's Business Administrator (BA) who was hired in September 2012. In addition, the BA was a co-owner of this business. We obtained the calendar year 2013 Personal Disclosure Statement filed by the BA and noted he did not disclose his co-ownership of this business.

The vendor was paid approximately $97,000 for fiscal year 2012 through fiscal year 2014 services, including $58,000 during fiscal year 2012. Competitive bids were not obtained prior to the contract. According to the vendor's website, the owner was the vendor's only employee. We verified that wages were not paid by the vendor to any employees during that time period. The vendor's services, other than the student evaluations (the invoices did not identify who provided the service), were provided through eight independent sub-contractors. The vendor essentially earned more than $19,000 acting as a middleman. Our review of the vendor's invoices also noted a lack of support for payments totaling $6,000. We also noted copies of multiple fiscal year 2012 correspondence sent to the vendor from the district's special services office. This correspondence informed the vendor that, based on the bills submitted to the district's special services office by the vendor's sub-contractors, the district prepared the vendor's payment vouchers on its behalf. The correspondence also instructed the vendor how much to pay its sub-contractors.

Purchase of Flash Drives

The district spent $20,000 for flash drives it did not need and could not use.

In April 2013, the district purchased 2,000, 8GB flash drives, at the cost of $9.95 each, from a local printing company. At the time, the company employed a district board trustee as one of its sales representatives.

Two days before the district created a purchase order, the trustee, along with his co-worker, filed a police report on behalf of the printing company stating that the trustee was contacted by email about purchasing 2,000 flash drives from the printing company. Payment for the flash

BELLEVILLE PUBLIC SCHOOLS (continued)

drives was fraudulent and the flash drives were never issued to the fraudster leaving the company with 2,000 flash drives. According to the copy of the invoice issued to the fraudster, the board trustee was the salesperson for the transaction.

In addition to the nearly $20,000 flash drives cost, the printing company also charged the district $250 for shipping. The company was located 1.8 miles from the district, and the flash drives could have been picked up by a district employee.

The district had no need for these flash drives. Most of the computers were obsolete and were not equipped with USB ports. The flash drives were found in a locked file cabinet in the superintendent's office by the district's subsequent administration. Some of the flash drives were distributed to the district secretaries, staff members, and faculty. We observed the nearly full box of undistributed flash drives stored in the management's office more than three years after the purchase.

Cellular Phones

The district needs to strengthen internal controls over cellular phone issuance and usage.

The district's technology device policy, which includes cellular phones, requires a designated staff member to administer the issuance of devices and to maintain direct oversight of inventory, service contacts, and internal controls. The policy prohibits the use of a device by any other person except as authorized by the Superintendent or designee. The devices should be used for the sole and express purpose of conducting official district business.

The district paid over $103,300 in cellular phone charges during fiscal year 2014 through fiscal year 2016. Fiscal year 2014 transactions included a $10,400 data usage charge the district could not explain. Fiscal year 2014 payments also included more than $3,200 in roaming charges, some of which resulted from weekend and after-hour phone calls to family members. As of January 2017, the district had 71 cellular phones, 60 active and 11 suspended. Despite multiple attempts, the district was unable to provide us with an accurate list of users. Our attempt to verify all cellular phone users was also unsuccessful.

Payroll and Personnel

Sick Leave Payments

Sick leave payments should be in accordance with governing statutes.

N.J.S.A. 18A:30-3.5 limits an unused sick leave payment to school superintendents and business administrators to the amount accumulated before the effective date of the statute (June 2007) or $15,000, whichever is greater. This supplemental compensation should be payable only at the time of retirement. In addition, N.J.S.A. 18A:30-3.6 placed a $15,000 unused sick

BELLEVILLE PUBLIC SCHOOLS (continued)

leave payment cap (upon retirement) on all employees hired after May 2010.

The district limits the sick leave payment for teachers hired prior to May 2010 to $23,205 but not for administrators (school principals, directors, and supervisors). According to fiscal years 2012 through 2015 administrator employee contracts, existing district employees who were hired for a position covered under the contract were subject to a maximum terminal payout of $15,000 or the amount previously accumulated, if greater. This language was eliminated from the recently negotiated fiscal years 2016 through 2019 contract, therefore increasing the district's liability for accumulated sick leave payments to affected employees.

Using fiscal year 2019 rates and current unused sick leave balances, employees eligible under the contract as of March 8, 2017, would receive $11,000 to $103,000 in unused sick leave payments.

The contract is also in violation of the statute. It offers the payment on the basis of sick leave to any employee with fifteen years or more of service upon any type of termination rather than only retirement as required by the statute. The contract limits the sick leave payment upon retirement only to employees hired after December 31, 2016.

The last two contracts offered a monetary incentive to employees with 15 or more years of experience who retired by June 30, 2015 or by June 30, 2017. Only one employee took advantage of the fiscal year 2015 incentive which increased her payment by $9,200 for a total of $59,000. This employee was overpaid $4,209 for 23 sick days which should not have been added to the payable balance when the employee assumed responsibilities covered under N.J.S.A. 18A:30-3.5 during fiscal year 2014. In addition, immediately following her retirement, she was hired for the term of July 1, 2015 through September 30, 2015 as an educational consultant to provide, according to the consultant agreement, training and transitional services as requested and assigned. The consulting arrangement was also referred to in the individual's separation agreement. The agreement stipulated that receipt of the compensation and benefits was conditioned upon the individual's cooperation and assistance to the district prior to her resignation on June 30, 2015. The compensation included a $39,500 payment and three months of health benefits coverage at the district's expense. When asked about specifics of the individual's work, management stated that she was paid for helping with and for testifying in the case filed against the district by one of its employees. An invoice supporting the compensation payment did not provide any detail. Also, we were not provided with a detailed description of the individual's work.

Stipends

Stipends should be paid in accordance with employee contracts.

During fiscal year 2014, the district's head custodian received a stipend of $5,000 which was approved by the district's board upon the recommendation of the Superintendent. The board

BELLEVILLE PUBLIC SCHOOLS (continued)

resolution stated, however, that the amount of the stipend was based on the employee's contract. Per the 2011-2014 custodian and maintenance employee contract, a head custodian was entitled to a $3,000 annual stipend. During fiscal year 2015, the same individual received an $8,000 stipend. Per his notification of appointment letter, the stipend was based on the custodian and maintenance employee contract. In the 2015-2017 contract, the annual stipend was still limited to $3,000. There was no written contract between the district and the individual or any other documentation providing justification for the increased stipend. The stipend was also not approved by the district's board, only the individual's appointment as the right to know officer, asbestos management officer, indoor air quality coordinator, and integrated pest management coordinator for fiscal year 2015 was approved. In November 2015, the district's management recognized that the title and the duties the individual had claimed to have did not exist. His stipend for fiscal year 2016 was reduced to the contractual amount of $3,000, however, since he had not been notified of this until November 2015, he was also paid a prorated stipend of $2,625 for July 2015 through November 2015. We calculate the overpaid stipends to be $9,625 for fiscal years 2014 through 2016.

Home Instruction

Internal controls over home instruction should be strengthened.

During fiscal year 2016, home instruction expenditures totaled $82,400 for 48 general education students and $77,500 for 34 special education students. The instruction was provided by 71 instructors who were compensated at the rate of $43.05 per hour. According to district management, home instruction must be provided in one-to-one sessions.

Our review of fiscal year 2016 home instructions disclosed the following issues.

- 81 billing conflicts totaling 43 overlapping hours amounting to $1,900 for 25 instructors. The examples of conflicts include the same student reported as being taught by multiple instructors during the same time period or an instructor billing for multiple students during the same time period. Billing conflicts ranged from 1 to 10 per instructor. We also noted that 3 instructors submitted a bill for 4 days of home instruction while on sick leave during regular school hours.

- Home instruction timesheets contain multiple addresses but do not specifically identify the location where the instruction occurred. Also, the majority of home instructions for high school students occur in the school library, contrary to the provisions of the administrative codes (N.J.A.C. 6A:16-10.1(a) and N.J.A.C. 6A:16-10.2(a)) that stipulate that the home instruction should be provided at the student's home or other suitable out-of-school setting.

- 15 students did not receive the number of days or hours of home instruction required by the N.J.A.C. 6A:14-4.8, N.J.A.C. 6A:16-10.1, and N.J.A.C. 6A:16-10.2.

BELLEVILLE PUBLIC SCHOOLS (continued)

- A written notification of a district intent to provide home instruction to 31 of 34 special education students was not provided to the Department of Education through its county office, as required by the N.J.A.C. 6A:14-4.8(a).

Health Benefits

Monthly billings are not reviewed to verify enrollment eligibility.

The district provides health, prescription drug, and dental coverage to its eligible employees and their dependents through the State Health Benefits Program and two private insurance companies. The district notifies the plan administrators of any changes in coverage due to hiring, terminations, or changes in coverage status. We compared the December 2015 billing lists of covered employees to the district's employee listing and found the following exceptions.

- Three former employees were not removed from medical coverage for a period of 18 to 30 months after separation. We calculated the errors resulted in overpayment of $74,000 in medical premiums.

- Four former employees and one employee on leave without pay were not removed from prescription drug coverage for a period of 2 to 28 months after separation or leave without pay. In addition, one employee was not billed for 13 months while on Consolidated Omnibus Budget Reconciliation Act (COBRA) coverage. Also, the wife of a retired employee was not removed from coverage for a period of 14.5 years. According to the contract between the district and the retiree dated June 1990, he and his dependents were entitled to free prescription drug coverage for the remainder of his natural life. In case he died within 11 years of the effective date of the contract, his widow was entitled to free benefits until 11 years from the effective date of the contract. We verified that the retiree died in 1999 and his wife should have been taken off the benefits in 2001.

- Eleven former employees and two employees on leave without pay were not removed (or billed) for dental benefits for a period of 2 months to 8.5 years. One of these employees had been listed on the provider's website as terminated from benefits as of November 1, 2015 but was not removed from the bill. The district failed to review monthly itemized lists supporting the dental premium bills which would have identified a terminated individual.

The district offers dental coverage to retired employees who elect to participate in the plan. Retirees are billed for dental premiums twice a year. The district keeps a folder with copies of mailed invoices and upon receipt of payment removes the invoice copy from the folder. A business office employee stated that payments were up-to-date, but since there were no formal accounts receivable records, we could not verify the accuracy of that statement.

BELLEVILLE PUBLIC SCHOOLS (continued)

The district offers an opt-out program for health benefits. Employees are paid $2,500 for opting out of family coverage, $2,000 for husband and wife coverage, and $800 for single coverage. Payments are made to employees in two equal installments in December and June. Employees are required to fill out the opt-out application annually and attach an insurance card verifying proof of other coverage. We tested fiscal year 2015 and half of fiscal year 2016 (December 2015) opt-out payments that totaled $81,000 and $46,000 respectively, and found that copies of insurance cards were not always attached to the form or the type of coverage was not always specified on a card.

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

Boardwalk Hall Roof Projects

The continuous and inconsistent application of emergency procurement resulted in additional costs.

Boardwalk Hall is a multi-purpose facility located on the Atlantic City Boardwalk. It was constructed in 1929 as the country's original convention center, underwent a major restoration in 2001, and was transferred to the Casino Reinvestment Development Authority (CRDA or authority) in 2013 through S11. Boardwalk Hall is comprised of East Hall and West Hall. East Hall houses the main event hall, ballroom hall, and various ancillary spaces. West Hall is a two-story warehouse primarily used for parking of support vehicles for events at East Hall. The CRDA contracts with a facilities manager to serve as the authority's agent to manage and operate Boardwalk Hall. In October 2014, a five-year maintenance plan was prepared, identifying the need for repairs and replacement of the East Hall and West Hall roofs. Our review noted that the lapse in time between identifying the need for roof repair and replacement, and the questionable application of multiple emergency procurements, resulted in all roof work being awarded to one vendor at an additional cost to the authority of up to $2.1 million.

Timeline

November 2014 – RFP for East and West Hall Roofs

A Request for Proposal (RFP) was released in November 2014 for the repair and replacement of the East and West Hall roofs. A contract was awarded but was cancelled. At that time, the authority evaluated the use of and costs associated with repurposing and/or demolishing West Hall and determined that the associated costs would be prohibitive compared to the budgeted costs to repair and/or replace the roofing system.

March 2015 – As-Needed Roofing Contract

In March 2015, the authority issued an RFP and subsequently awarded a two-year contract, not to exceed $500,000, for an as-needed roofing contractor to the sole respondent of the RFP and immediately identified three projects, totaling $455,000 to be completed under this contract. This vendor would eventually receive all additional Boardwalk Hall roof-related work over the next three years.

June 2015 – West Hall Emergency

In June 2015, a water leak was identified at West Hall. The authority determined that emergency work was required and sought a competitive process by releasing roof designs to replace a portion of the West Hall roof to four contractors who had participated in the original 2014 public bid. Two of the contractors responded at the July bid opening. A $1.4 million

CASINO REINVESTMENT DEVELOPMENT AUTHORITY (continued)

contract was awarded in August to the vendor who was recently awarded the as-needed roofing contract and was the lower of the two bids.

June to September 2016 – RFP for the East Hall Roof and Remainder of the West Hall Roof; Rejection of Bids; Increase As-Needed Contract

It was not until June 2016, when the CRDA released an RFP to repair and replace the East Hall roof areas and the remainder of the West Hall roof. There were six respondents, four of whom submitted a bid for both projects. The highest and lowest combined bids were approximately $5.4 million and $3.46 million, respectively. The architect evaluated all submitted bids and concluded that the lowest bid proposal contained all prerequisites required by the RFP and the respondent was prepared to contract. The CRDA's management and the facilities manager recommended the board award a contract for both projects to the lowest combined bid. A draft resolution was prepared for the September 2016 board meeting to reflect these recommendations; however, the board chose to reject all bids on the basis of examining the scope of work for the proposed construction and, once again, to further examine potential options related to the repair and/or replacement of the roofing system. At that same board meeting, the board immediately presented and approved a resolution to increase the as-needed roofing contract by $2 million (from $500,000 to $2.5 million), to effectuate certain limited emergency repairs to a portion of the East Hall roofing system, even though the vendor holding the as-needed contract had just submitted the highest bid for the East Hall and West Hall roof projects.

November 2016 – East Hall Roof Emergency

Less than two months after the board's rejection of the competitive bids, the authority requested a proposal for an emergency roof replacement at East Hall. The as-needed contract vendor submitted a proposal for $1.4 million to replace specific East Hall roof areas "as per original bid documents" that mirrored its previous bid, which was the highest bid. The CRDA issued a purchase order for the work under the as-needed roofing contract with no consideration of a competitive process, even though the specifications used were those from the very recent June 2016 bid solicitation and could have been re-released, as in past practice. The vendor was paid based on percentage of completion, and the project was for roof replacement, not repair, which was not in accordance with the as-needed roofing contract.

January 2017 – West Hall Roof Emergency

Over a year and a half after the first West Hall roof emergency, and two months after the East Hall roof emergency, another emergency was identified at West Hall. On January 24, 2017 there was a power outage caused by the electrical switchgear being "flashed over due to water intrusion from a leaking roof." The power was restored to the hall, the affected area was fenced off, and the room was locked making it inaccessible to unauthorized personnel. A proposal was

CASINO REINVESTMENT DEVELOPMENT AUTHORITY (continued)

requested from only the as-needed contractor to complete the roof repair and replacement of the remaining roof areas of West Hall as identified in the June 2016 RFP.

On March 1, 2017, the as-needed contractor submitted a proposal with a base cost of $2,350,000. In this emergency, the CRDA management recommended the Executive Director waive the authority's public bidding process based on exigencies requiring the immediate delivery of the services and award a contract to this vendor. Management drafted a memo citing public exigencies existed which required immediate delivery of services under N.J.S.A. 52:34-10(b) (statute) as justification to waive the public bidding process. This statute, however, is not specific to state authorities. The authority's procurement protocol was developed in accordance with a 2006 executive order (EO 37), which specifically addresses the procurement process for state authorities, includes limited circumstances in which exception to public advertising and a competitive process shall apply, and additionally requires specific documentation and procedures when an exception is invoked. The CRDA opted to rely on the statutory provision which appears to have circumvented the additional requirements of the executive order process.

- Similar to the statute, EO 37 removes the requirement of a competitive process in the case of unforeseen life or safety emergencies where the public exigency requires that the services be purchased immediately, however, EO 37 requires this to be demonstrated by the memorialized concurrence of three authority officials. We were not provided with this required memorialized concurrence of three authority officials. Based on the lapse in time between the emergency and authorization to commence work and documentation presented, we question whether a public exigency existed. We calculated that 77 calendar days lapsed from the incident date to April 11, 2017, when the Executive Director authorized the commencement of work, which is not an immediate response. Since roof designs were already prepared from the 2016 RFP it appears there was ample time for a competitive bidding process. The electrical contractor, who restored power, did not state a public exigency existed, but that repair and/or replacement of the roof must be completed prior to any additional electrical work performed and recommended that the roof be addressed as soon as possible to eliminate further additional problems and unsafe conditions. Additionally, our walkthrough of the West Hall area identified that the affected switchgear room was out of public view and only accessible by authorized personnel.

- When an exception to competitive purchasing is invoked under EO 37, a proposed resolution concerning the contract shall set forth the justification for invoking the exception, and the authority's Executive Director shall certify the circumstances that warrant application of the exception. The CRDA did not prepare a resolution or formally receive board approval, nor did the Executive Director certify that circumstances warranted application of the exception. The Executive Director simply sent an email to authorize emergency work in an amount not to exceed $3,052,500, including a 25% contingency.

CASINO REINVESTMENT DEVELOPMENT AUTHORITY (continued)

- Per EO 37, the emergency contract must be limited to purchasing those services or products necessary to mitigate the emergency situation. The as-needed contractor was authorized to complete the replacement of all West Hall roof areas, as identified in the June 2016 RFP, which appears more than necessary to mitigate an emergency.

- The lowest base bid submitted and rejected in 2016 for these West Hall roof areas was $1,381,500. The authority ultimately paid the $2,350,000 base bid plus a contingency for this project; $968,500 more than the lowest base bid.

August 2017 – RFP for remaining East Hall Roof Areas

By the summer of 2017, repair and replacement of all of West Hall and a portion of East Hall roof areas had been procured through some form of an emergency process. In August 2017, the CRDA issued an RFP to repair and replace the remaining roof areas of the East Hall, as outlined in the June 2016 RFP, along with the addition of gutter work. The only bid submitted was from the as-needed contract vendor that was granted all work on the Boardwalk Hall roofs, mostly through non-competitive processes. The CRDA management could have authorized a re-bid prior to opening the one bid, to ensure a competitive process, but chose not to do so and instead awarded a base contract for $1.8 million plus a contingency. The architect's recommendation stated that the bid was within the expected range for said work, however the authority could not provide support of any such range dated prior to the bid opening. This base contract, in addition to the November 2016 East Hall roof emergency base contract, totaled approximately $3.2 million and exceeded the lowest bid that was submitted and rejected in the 2016 East Hall RFP by approximately $1.1 million.

At the conclusion of all Boardwalk Hall roof repair and replacement projects, the vendor with the highest base bid of $5.4 million in the 2016 competitive process received base contracts totaling $5.53 million plus contingencies. Upon completion of all work, we estimate the authority will expend approximately $2.1 million more than if the board had awarded the projects to the contractor with the lowest base bid of $3.46 million in 2016.

Beach and Boardwalk Hall Events

Amendments and non-compliance with the beach and Boardwalk Hall events contract resulted in $1.75 million in unauthorized payments and overpayments.

The authority contracted with a national events promoter (promoter) to book, present, and produce beach concerts and Boardwalk Hall events. We found that certain contract terms were amended by authority management in a manner not consistent with the board's authorizing resolution and another contract term was not followed resulting in a total of $1.75 million in unauthorized payments and overpayments.

CASINO REINVESTMENT DEVELOPMENT AUTHORITY (continued)

In March 2016, the board authorized a resolution to reserve funds not to exceed $9 million for the promoter for beach concert events ($6 million) and Boardwalk Hall events ($3 million). The resolution authorized the Executive Director to negotiate and execute agreements upon the following provisions and such other terms and conditions the Executive Director deemed appropriate and consistent with the resolution.

- The promoter will book and perform a minimum of six beach events annually between May and September of 2016 through 2018. The authority will allocate up to $2.0 million per year, with a maximum per event subsidy of $333,333.

- The promoter will book and perform a minimum number of events held at Boardwalk Hall as determined by, and subject to, the authority's approval. The authority will allocate up to $1 million per year, of which $500,000 will serve as an annual event subsidy and $500,000 will serve as an event loss mitigation fund.

The Boardwalk Hall agreement replaced a 2014 agreement having similar terms.

Beach Concert Events

In April 2016, the CRDA entered into a three-year contract for the promoter to annually produce at least six beach concerts with total payments not to exceed $2.0 million per year. The parties acknowledged and agreed that due to the unique nature of the beach concerts, the promoter did not guarantee that it would be able to book six beach concerts in each contract year. The authority agreed to pay the promoter $333,333 for each beach concert other than those occurring on a Saturday and/or holiday weekend. In the first contract year, the promoter was eligible to receive payment of $166,666 per beach concert for a maximum of two Saturday beach concerts. After the first contract year, the promoter was not eligible for any payment for beach concerts scheduled on a Saturday and/or holiday weekend.

In the summer of 2016, five concerts were booked, however, only three were performed due to cancellations resulting from inclement weather. We found that one of these concerts was performed on a Saturday and the authority paid $333,333; a payment of $166,667 more than the contracted amount. It was not until more than four months after the concert date that authority management amended the original agreement and authorized a payment of $333,333 to the promoter for this Saturday beach concert. While the original contract sets the payment amounts "unless otherwise specifically agreed by the parties," it is questionable practice to amend a contract four months after the delivery date, especially since the authority was unable to support that the $333,333 amended compensation was agreed upon prior to this Saturday beach concert.

In July 2017, the Executive Director amended the beach concert agreement and materially modified the financial terms specified in the board's authorizing resolution by providing a maximum financial assistance package of $2.5 million for the 2017 contract year in return for a minimum of three beach concerts and mutually agreeable assistance and logistical support to the authority for other authority-approved entertainment events. During the 2017 contract year, the promoter only produced three weekday beach concerts, provided no additional assistance and logistical support since there were no additional events, and was paid the full $2.5 million, a payment of $1.5 million in excess of the board's authorization for three beach concert events, and also exceeding the board's authorization of a $2 million annual subsidy.

Boardwalk Hall Events

The September 2014 Boardwalk Hall agreement was subsequently replaced by the March 2016 Boardwalk Hall agreement. Under both agreements, the authority agreed to pay the promoter a sponsorship fee based on the number of events as follows: no fee for up to five events, $270,000 for six or seven events, $350,000 for eight or nine events, $460,000 for ten or eleven events, and $500,000 for twelve or more events. We found that during the 2015-2016 contract year, the promoter produced seven events, however, the authority calculated the sponsorship fee based on eight events, one of which was not identified as the promoter's event. The authority was unable to provide any support substantiating the inclusion of this event in the calculation. As a result, the authority overpaid the promoter $80,000 in sponsorship fees.

Miss America Organization Contract

The CRDA did not monitor actual costs, contract deliverables, and economic impact when negotiating a second contract with the Miss America Organization.

Pageant Contract Expenditures

In May 2013, after a nine-year absence, the CRDA entered into a three-year contract with the Miss America Organization (MAO) to return the iconic pageant to Boardwalk Hall. This initial contract covered the 2014, 2015, and 2016 competitions. The CRDA agreed to pay 50 percent of the pageant's production costs and 50 percent of the annual building operations costs associated with the pageant, up to a total maximum annual payment of $2,267,000. The MAO was responsible for the remaining 50 percent and any amount in excess of $4,534,000. The CRDA was also responsible for other costs such as meals and transportation for the contestants and chaperones, a welcoming ceremony, and security at Boardwalk Hall. At the conclusion of this contract, the CRDA had paid $6,801,000 (the maximum for all three years).

The CRDA was unable to provide documentation to support any efforts on their part to monitor the actual costs related to the Miss America Competition. In addition, under the 2013 contract terms, the MAO was to provide written reports every 90 days supporting the production costs incurred. The CRDA was unable to provide us any of these required cost reports. It was only able to provide us a copy of the 2015 year-end settlement statement; however, it provided no evidence that the expenses were verified for accuracy. This statement reflected a $61,650 credit balance which was never received by the authority.

CASINO REINVESTMENT DEVELOPMENT AUTHORITY (continued)

In February 2016, the CRDA entered into a second contract with the MAO that guarantees payments of $12,536,000 over a three-year period representing an 80 percent increase from the prior contract cost. The CRDA agreed to pay $3,500,000, $3,750,000 and $4,000,000 for the 2017, 2018 and 2019 pageants, respectively. The second contract eliminated the requirement for the MAO to provide written reports supporting the production costs. Additionally, this contract provides annual payments of $325,000 to the MAO towards the cost of other competition expenses, such as contestant and chaperone meals, hotel related fees, transportation and security for the contestants, and a VIP after-party. By comparison, the CRDA paid a total of $176,000 over three years for similarly related costs under the prior contract. Furthermore, the authority agreed to pay $311,000 for prior year costs, but was unable to provide any documentation or rationale for these expenses.

Economic Benefits

The MAO had a partner relationship with an entertainment production company (company). The 2016 contract included a provision to help promote the City of Atlantic City through the company's other productions. The company was required to air a live remote performance occurring in Atlantic City to be incorporated in the 2017, 2018, and 2019 New Year's Eve telecasts. The CRDA was required to cover all costs related to the performance but did not sign a performer for the 2017 event and was unable to provide us documentation of a search effort. We requested any cost-benefit analysis prepared prior to adding this term to the contract and were provided none. In late 2017, the company severed its ties with the MAO, effectively removing this contract provision. We subsequently noted that the authority did not adjust its funding to the MAO as a result of this change.

The authority's initial and second contract with the MAO included non-financial obligations by the MAO to promote Atlantic City. We requested documentation demonstrating that the CRDA verified compliance with these terms but were provided none.

After the initial contract was signed, an economic impact study was performed prior to the 2014 competition. The study estimated $60.4 million in economic benefits from the pageant to the Atlantic City area through a combination of local jobs created for the pageant, consumer spending, and state and local tax revenues. There was no estimate of the value of Atlantic City's exposure on television.

No follow-up study was performed to measure if expected benefits were achieved. The only other economic impact study performed was after the 2017 competition, which was after the CRDA negotiated the second contract and significantly increased the payments to the MAO. The second economic impact study identified only $23.2 million in economic benefits to the Atlantic City area including the value of Atlantic City's exposure on television and was significantly less than the benefit estimated in 2013.

CASINO REINVESTMENT DEVELOPMENT AUTHORITY (continued)

Without documentation to support the actual competition related costs, assurance that all promotional deliverables were received, planning for and utilizing the New Year's Eve broadcast and ultimately losing the provisions related to the entertainment production company, or using any measure of economic impact in contract negotiations and overall monitoring, it appears that the CRDA did not effectively manage these contracts nor have the ability to determine if the funds were spent in an efficient manner.

Agreement Modifications

CRDA management materially modified an agreement, resulting in significant additional payments.

In 2000, the CRDA partnered with a company to develop, lease, and manage The Walk, which is the shopping district located at the foot of the Atlantic City Expressway. The land is owned by the CRDA. Development of The Walk was planned in phases and multiple stages and included a plan to eventually develop the facility of an agreed-upon large retailer which ultimately opened in 2015. We found that authority management so materially modified an agreement related to the final project phase which included the large retailer, that the agreement is no longer consistent with the board resolution. Project financing originally approved as a $12 million loan, and annual grants totaling $10 million have been modified to a degree that will now require the authority to pay the developer up to $18.7 million in excess of the board authorized terms over the course of the modified agreement.

In August 2012, the board authorized, through resolution, financial assistance in the form of a $12 million loan, funded through the issuance of casino licensee bonds, to the developer for the construction of this large retail store. The board subsequently adopted a bond resolution authorizing the issuance of bonds in an aggregate principal amount not to exceed $12 million to fund the loan. In addition to the loan, the board authorized the developer to receive an additional $1 million per annum of the authority's annual grant under the Casino Reinvestment Development Authority Urban Revitalization Act until 2024. The developer was previously authorized to receive up to $1.25 million per annum of this grant related to the development of prior stages of The Walk. This addition increased the board authorized grant total to up to $2.25 million per annum.

The Executive Director was authorized to negotiate and execute necessary and desirable agreements with the developer, including loan agreements and related documents, amendments to the Phase Two Master Development Agreement, if any, and the stage development agreement, all consistent with the resolution, and subject to the CRDA Act, rules and policy. The Executive Director entered into a stage development agreement with the developer for the project in May 2013. The developer separately executed its lease with the retailer which included payment of a base rent amount plus a percentage of retail sales. We found that the Executive Director subsequently amended the agreement with the developer with material

CASINO REINVESTMENT DEVELOPMENT AUTHORITY (continued)

changes that no longer appeared consistent with the board's authorizing resolutions resulting in the following outcomes and analyses.

- A debt service and sharing of percentage rent clause was added to the developer's agreement where, for any calendar year in which the gross sales under the lease between the retailer and the developer did not exceed $29,999,999.99, the CRDA shall reimburse the developer 100 percent of the regularly scheduled principal and interest payments on the CRDA loan. The CRDA was unable to provide any documentation to substantiate sales projections of $30 million.

- The retailer actually made less than 57 percent of the gross sales benchmark, and the CRDA reimbursed the developer the full principal and interest payments received on its loan, totaling $300,916 and $857,761 for 2015 (partial year) and 2016, respectively.

- We calculated the developer received payment of approximately $1.5 million in rent from the retailer and reimbursement of principal and interest from the authority for 2016. If sales had equaled $30 million, the developer would have only received an estimated $927,000 in rent and no CRDA reimbursement.

- The modified agreement contained an additional clause that specified when the retailer's gross sales meet or exceed $40 million, 50 percent of the percentage rent paid to the developer shall be remitted to the authority. We calculated that for the developer to receive the same $1.5 million with no reimbursement of principal and interest from the CRDA, the retailer would have to generate gross sales of approximately $80 million, which appears unlikely based on recent sales data.

- The Executive Director increased the entertainment retail district grants from $2,250,000 to $2,500,000 per year, resulting in additional payments of $750,000 for 2015 through 2017 and potentially $1,750,000 in additional payments over the remaining term of the agreement. These payments were not included in any board resolution.

- Additionally, the authority sold bonds to the casinos and issued a loan to the developer for $330,000 in excess of the amount authorized by board resolution for the project and the bond resolution. This amount accounted for CRDA's 2.75 percent project processing fee and is also now subject to reimbursement to the developer under the amended agreement.

Per the bond resolution, revenues defined as all payment received by the authority derived from any repayments of the loan (by the developer) are pledged to the payment of principal and redemption price of any interest on the bond. The developer continues to make timely monthly payments on the loan and the authority reduces the note receivable. However, since the Executive Director agreed to reimburse 100 percent of these payments if sales do not exceed $30 million, the casinos are not receiving any interest payments or redemption of principal on

CASINO REINVESTMENT DEVELOPMENT AUTHORITY (continued)

its bonds. The CRDA continues to record interest expense and accrue interest payable to the casinos and record the refund of principal and interest to the developer, all under the debt service fund. If sales of the retailer continue to be less than $30 million, the debt service fund will continue in a negative direction, and the CRDA could potentially default on the bonds, thereby resulting in the casinos and the authority subsidizing the developer. This would amount to approximately $18.7 million, consisting of the $12 million loan, a $330,000 project processing fee, $3.83 million in amortized interest, and the potential $2.5 million excess payment of entertainment retail grants.

Direct Investment Project

The board approved an additional $2 million direct investment project for a casino licensee without supporting documentation.

In accordance with N.J.S.A. 5:12-144.1, and prior to legislative changes in 2016, each casino was required to either pay 2.5 percent of its gaming revenue to the state or reinvest 1.25 percent of its gaming revenues, through the CRDA, in community and economic development projects in Atlantic City or throughout the state. These 1.25 percent payments, known as Investment Alternative Tax (IAT), are held in an escrow account by the CRDA and used to purchase bonds (to fund CRDA projects), as direct investments (reimbursed back to a casino licensee for its CRDA approved project), or as donations. Under the donation credit policy, a casino licensee is eligible to donate IAT funds to the authority in order to receive access to its IAT funds for non-gaming amenity projects. Through legislation passed in 2011, the IAT funds were redirected to only be used within Atlantic City's Tourism District. Subsequently, in May 2016, legislation redirected future IAT funds to the city of Atlantic City for its debt service obligations.

During our review of IAT donations, we identified one resolution where the board amended a casino licensee's project approval from almost two years earlier, to provide that licensee with an additional $8 million IAT direct investment and simultaneously approved the licensee to donate $7,067,600 of its IAT funds to the CRDA.

- On January 25, 2016, the casino licensee submitted a letter to the authority requesting to amend its original $18.8 million funding application submitted in 2014. The licensee requested increased funding for additional redevelopment of approximately 15,000 square feet of space that was to be utilized as three food and beverage outlets at the property for an additional cost of $6 million. The casino submitted a market study which outlined, that in the opinion of their advisors, the $6 million project complied with a direct investment requirement of N.J.S.A. 5:12-178 in that the project did not directly and exclusively benefit, improve or increase the assessed value of a casino hotel or related facility, and approximately 30 percent of the direct and indirect incremental revenues associated with the project would be realized at other Atlantic City establishments outside the casino.

CASINO REINVESTMENT DEVELOPMENT AUTHORITY (continued)

- In April 2016, the casino licensee submitted another letter "to clarify" the previous request dated January 25, 2016 requesting an amendment to permit the direct investment of $8 million, instead of $6 million, of currently available IAT obligations for the proposed project. The letter stated that in addition to the redevelopment of restaurant space, the licensee would also renovate its ballroom, meeting rooms, and retail corridor and lobby. Only the casino licensee commissioned market study in support of the $6 million project was attached. In this letter, the casino licensee also requested to donate $7,067,600 of its IAT obligations to the authority at a 1:1 ratio, which in accordance with the donation policy means the authority receives the full donation and the licensee received "goodwill". However, this donation request was in conjunction with the direct investment increase, which does not appear to be goodwill and therefore is a unique arrangement.

In response to our request, the authority was unable to provide a subsequent study or any documentation to demonstrate the potential impact of the additional $2 million investment and compliance with the statute in that the project did not directly and exclusively benefit, improve or increase the assessed value of the casino hotel or related facility. We were unable to determine how the board made the determination to approve the investment without support of compliance.

Space Utilization

Building assets of the CRDA should be reevaluated for employee occupancy utilization.

The CRDA has not adequately evaluated space requirements for its employees and potential usage of the building assets acquired as a result of S11. In December 2011, after S11 was signed, the CRDA paid $3.1 million for a two-floor office building and parking lot located next to a previously owned CRDA parking lot. The authority also entered into a lease in a neighboring building for office space previously occupied by the Atlantic City Special Improvement District (ACSID). Additionally, in 2013, the CRDA acquired Boardwalk Hall and the Atlantic City Convention Center (Convention Center), which both include office space.

As of October 2017, the CRDA had 70 full-time employees assigned to the various locations. We performed a walkthrough of each area, reviewed floor plans where available, and found that space was not being efficiently utilized.

- The office building measures 12,260 square feet and contains 25 offices, 21 cubicles, 4 conference rooms, and the board room. Only 29 employees are assigned to this building.

- There are no floor plans for the office space located at the back of Boardwalk East Hall. The CRDA provides office space to a not-for-profit entity (Meet AC) in this area for $5,000 per month, however, there is no formal agreement for this lease arrangement. Additionally, one division of the CRDA is assigned to the space. We performed a walkthrough and identified 54 workspaces, of which 24 were vacant.

CASINO REINVESTMENT DEVELOPMENT AUTHORITY (continued)

- The Convention Center also contains office space. The management company for Boardwalk Hall and the Convention Center occupies 33 spaces .We obtained floor plans, which have not been updated, toured the facility, and identified significant underutilized space, which we estimate could accommodate at least 22 more employees, if efficiently configured.

- Although there appears to be ample space within the other CRDA properties, the authority is paying $87,000 annually for leased office space for eight employees and three contracted individuals.

We noted that the Convention Center has 45 meeting rooms available for rent. The planning guide produced by Meet AC identifies each space and a corresponding rental price. Based on event data obtained for the Convention Center, we noted a decrease in the number of smaller sized events. We requested the booking data for these meeting rooms in order to evaluate usage and found that neither Meet AC nor the management company for the Convention Center track the usage of these event rooms in the booking software. If the usage was properly recorded and evaluated, underutilized rooms could potentially be repurposed for office space to accommodate all of the authority's professional operations.

Accounting Practices

We noted internal control weaknesses over the recording of revenue, procurement, and accruals.

Revenue Recording

The CRDA maintains a number of funds within its financial reporting system. In addition to accounting for direct revenue sources, a significant number of interfund transactions were processed through journal entries and issuance of checks payable to the CRDA. We found limited approval and untimely recording of revenue-related transactions, including journal entries, contributed to errors. The CRDA accounting manual requires that a copy of each check and additional support be retained for each entry, however, we found that this was not the actual practice, as complete support was not routinely retained.

The authority has written policy and procedures to ensure all cash receipts are properly documented, independently verified, and promptly deposited. These procedures include a policy that all cash and checks should be logged into a cash receipts journal. For the 25 transactions we tested, no cash receipts journal was maintained nor were deposits made timely. In the absence of a cash receipts journal, we used the check date and compared it to the deposit date and noted delays ranging from 4 to 85 days, with the median delay of 20 days. One check for $3.2 million was deposited 85 days after the check date. We noted another check for $529,000 was sent to an attorney in error, where it remained for 24 days before the attorney sent a check

CASINO REINVESTMENT DEVELOPMENT AUTHORITY (continued)

to the CRDA and was not deposited for an additional 14 days. Also, the CRDA did not record accounts receivables for other revenue, which could allow for receivables to go undetected and therefore uncollected.

At the completion of our field work, the authority indicated that the deficiencies in recording cash receipts had been addressed with updated procedures. We tested these updated processes and found controls were still inadequate. The authority now uses an Excel spreadsheet to log cash receipts; however, the same Excel file is updated daily and accessible by anyone in the finance department. We performed an additional review and found it still took an average of 19 days from the time a check was received until deposit. Furthermore, the authority does not have a control structure in place to prevent checks from being misappropriated or unaccounted for, since it does not reconcile cash receipts to deposits.

Some transactions we tested were not routinely recorded timely in the accounting system which is necessary for accurate financial reporting and the ability for management to make informed decisions. We identified the following.

- A $301,000 check dated, and for 2015, was held and recorded in 2016.
- 2015 interest income of $43,146 was recorded in 2016.
- 2015 project processing fees totaling $33,382 were recorded in June 2016.

The authority's practice of utilizing interfund transactions allowed payable and receivable accounts to grow without an efficient process to reconcile the activity. These accounts should be zeroed-out to provide an accurate cash perspective in each fund.

Special Improvement District Assessment

A Special Improvement District (SID) assessment is charged to businesses within the Tourism District. Separate accounting software is utilized to track these assessments which are due quarterly and payable to the CRDA. The authority's Special Improvement Division is responsible for the collection efforts. The authority's Finance division prepares a multi-step calculation to arrive at year-end amounts related to this revenue source which are recorded in the accounting system. Our review identified the following.

- Through a verbal request, the Finance division directed the Special Improvement Division to credit $153,635 in receivables in the assessment software. This transaction was not simultaneously accounted for in the accounting system. The omission was not identified until after the year-end calculation was complete. The authority improperly addressed the omission by increasing the allowance for doubtful accounts by $153,635 and stated it was "to increase the allowance to 100% of the current year outstanding assessments." Since

CASINO REINVESTMENT DEVELOPMENT AUTHORITY (continued)

current year outstanding assessments were less than that amount, the accounts receivable was understated by $31,540. The lack of written documentation for this transaction allowed for the resulting error and revealed a control weakness in the recording of transactions.

- A journal entry for $71,480 was credited to SID assessments in error, thereby overstating revenue and assets for 2016.

- A bad debt expense is not utilized. Additionally, there is no formal policy on what is deemed uncollectible. Bad debt is recorded as a direct reduction of revenue resulting in an understatement of current revenues when used for analysis.

Procurement and Accruals – Convention Center Division

We found the Convention Center Division's actual purchasing practices did not follow the authority's accounting manual and needed improvement. Our sample of 76 transactions identified control weaknesses that could result in overspending or misappropriation of assets.

- Of the 49 applicable transactions tested, we noted 34 purchases totaling $349,520 were ordered without proper authorization prior to the purchase, as required by the accounting manual.

- Supporting documentation, including shipping and receiving reports, was inadequate for 12 of 76 invoices we tested totaling $235,727.

- Competitive price quotations were not documented for 24 of the 34 applicable transactions between $5,000 and $36,000, as required by the authority's accounting manual.

- A two-year contract entered into by the Atlantic City Convention and Visitors Authority (ACCVA) in December 2012 and assumed by the CRDA through the merger authorized payments totaling $110,950 for 2014. The contract allowed for a one-year extension at the discretion of the authority. Actual payments to this vendor totaled $234,300 for 2014 and $228,000 for 2015. There was no CRDA board approval for the additional $351,350 expended over the original contract terms and as required for this level of spending.

The Convention Center Division of the authority accrues expenses for various types of transactions. We found certain accounts continue to increase in an excessive and unsupported manner.

- There was no rationale for accruing audit fees totaling $241,500 between 2014 and 2016. The authority subsequently recorded year-end adjustments to transfer $113,400 of this accrued amount to the CRDA general fund. The CRDA actually paid $145,500 for the 2014

CASINO REINVESTMENT DEVELOPMENT AUTHORITY (continued)

through 2016 audits and it appears disproportionate that the Convention Center Division was responsible for 78 percent of this overall expense.

- The authority continues to record a monthly liability to New Jersey Transit "in an abundance of caution." From January 2014 through September 2017, the authority has expensed $712,500. The monthly expense was previously paid by the ACCVA under a stated agreement until it merged with the CRDA in 2013. We reviewed the agreement and could not determine that a $190,000 annual payment is due. While authority management states that it is involved in ongoing discussions regarding this matter, after four years the issue has not been resolved and the amount of reserved funds continues to increase.

Legal Expenditures

Legal expense payments were not in accordance with contract terms.

The authority employs two attorneys and two paralegals and also engages outside counsel for various needs. Our review of legal expenditures identified the following.

- The authority regularly utilizes three firms that were procured through Request for Qualifications proposals in 2014 and 2016. Contracts with these firms covered September 2014 through July 2018. We noted expenditure caps are not included in the contracts; however, there is an overall budget for legal expenses. Total annual payments averaged $1.28 million from 2014 through 2017.

- We were unable to determine the accuracy or reasonableness of a $52,136 legal payment to an additional law firm procured through an exception to competitive procurement. The documentation on file in the Finance Division to substantiate the payment for approximately one month of service was insufficient, so we requested the invoice. The authority redacted all activity descriptions, stating "attorney-client privilege," thereby limiting our ability to properly audit this transaction. Up to that point, we reviewed legal invoices in full content, but we were informed that any additional legal invoices subject to our audit would be redacted.

- Of the remaining invoices that we were able to review in full content, we noted that the authority did not verify invoice charges to the applicable contract for compliance with contract terms.

    - We found that the authority was paying one firm a two percent administrative fee on professional fees which was not authorized by contract. We presented this issue to management, and as a result the firm refunded the authority $21,300.

CASINO REINVESTMENT DEVELOPMENT AUTHORITY (continued)

- The authority paid invoices billed at a Counsel title but at a Partner title rate, the highest rate allowable under the contract. A Counsel title is not authorized under this firm's contract with the authority. Of the $42,800 in invoices we reviewed for this firm, $23,000 was incorrectly billed at the Partner rate.

Parking Garage Revenue

Revenue generating activities are not properly monitored.

In 2012, the authority opened the Wave Parking Garage, a five-story structure with 1,180 parking spaces and retail space on the ground floor. Our review of revenues related to the garage found a lack of monitoring by the authority.

A feasibility analysis was completed prior to construction of the garage which estimated total annual revenues would average $4.6 million for 2014, 2015, and 2016, representing the third, fourth and fifth year of the garage's operations. We noted that actual revenues for this time period averaged only $755,000 (16 percent of the forecast). We requested, and the authority could not clearly identify, who has been responsible for monitoring the garage operations and the lease.

Retail space on the first floor of the garage consists of approximately 16,000 square feet. The space, which is leased to a university for one dollar per year, houses artist studios, galleries, shops, a café, and a flexible workshop/classroom and hosts special events throughout the year. Under the terms of the lease, the authority should receive additional rent from the university in the form of a pro-rata share of the garage's operating costs and 20 percent of net revenues generated from the leased space. We found that the Finance division was unaware of the lease terms and therefore issued no invoices until we presented the issue. This has resulted in the following.

- The authority determined that 3.8 percent of the garage is common space and agreed that operating costs should have been billed to the university. We calculated that approximately $105,000 was due to the authority from November 19, 2013 through 2017.

- The university informed the authority that there has been no net revenue generated from the leased space and only provided an abbreviated financial statement for fiscal years 2014 through 2017 to substantiate this claim. The authority did not request additional support to verify the amounts for accuracy or evaluate them for reasonableness.

The roof of the garage maintains a 54,000-square-foot rooftop solar array consisting of 1,677 solar panels. A Solar Renewable Energy Credit (SREC) is generated for sale on the SREC market. After multiple requests for SREC data, we were finally provided with a report. We identified a decrease in SREC production for the 18 months between October 2015 and March 2017. When compared to October 2013 through March 2015, we found that production

CASINO REINVESTMENT DEVELOPMENT AUTHORITY (continued)

decreased (41 percent) from a monthly average of 41 SRECs to 24 SRECs. The authority was not monitoring the matter and did not address the underlying problem of two non-operational inverters until March 2017. We estimate that due to the lack of monitoring SREC production, approximately $58,000 in SREC revenue was lost.

Human Resources and Payroll

The authority did not ensure proper communication regarding employee job responsibilities and performance, a standard procedure regarding waiver of board compensation, and compliance with employment contracts.

Job Descriptions and Performance Evaluations

When the authority absorbed the ACCVA and the ACSID, it appears there was little effort to effectively merge the employees' responsibilities. We found the authority did not maintain adequate communication with employees or implement a process to monitor their responsibilities and performance.

- Employees should be presented with, and provide acknowledgement of, valid job descriptions to ensure awareness of their job responsibilities. Job descriptions also provide the employer with a measurement of employee resources and performance. We requested job descriptions for all of the authority's employees with the exception of seasonal and on-call employees. Of the 77 full-time and regular part-time employees as of March 1, 2017, we identified 56 titles and found the authority did not have a job description for 23 of them. We also noted that 8 of the 33 job descriptions were outdated, and responsibilities, such as those of the ACCVA employees, were no longer valid. The authority was unable to provide any documentation that employees were actually presented with their job descriptions.

- The CRDA Policy and Procedure manual states that the authority endeavors to conduct an annual written performance review of each employee. In addition, it shall be the policy of the authority to recognize meritorious performance through an increase in salary commensurate with the individual's contribution to the success of the organization. We found the authority did not conduct employee performance reviews during our audit period even through salary increases were given to some employees.

Reduction in Force

As of March 1, 2017 the authority had 108 employees of which 77 were full-time or regular part-time. In March 2017, the authority completed a reduction-in-force (RIF) in which 11 employees were terminated resulting in a reduction of $715,000 in salary and benefit costs. Eighteen employees were simultaneously awarded salary increases ranging from $2,000 to $40,000, for a total of $149,000, which decreased the RIF's cost savings. Fourteen of these

CASINO REINVESTMENT DEVELOPMENT AUTHORITY (continued)

employees were given a new title, of which there were no job descriptions for nine of them. We found the authority still had not prepared these job descriptions more than seven months after the RIF. Four employees who were given salary increases remained in their same title. The authority was unable to document how it most effectively reduced staff and awarded raises without having a complete assessment of employee responsibilities and performance. We noted by year-end the authority hired four new employees while three employees separated, resulting in a net increase of $185,000 in salary and benefit costs, thereby further decreasing the cost savings from the RIF.

Board Compensation

In accordance with N.J.S.A. 5:12-156, each appointed and voting public member of the CRDA, with the exception of casino industry representatives, shall receive compensation of $18,000 per annum; compensation of the Chairman is set to $23,000 per annum. We found that board members who waived their compensation were retroactively paid a combined total of $68,000. In January 2017, three board members submitted letters, all with similar language, to the authority stating that each had previously voluntarily waived their right to receive the annual stipend, and all three were requesting that the authority reinstate payment retroactively to January 1, 2016. The authority processed $59,000 through payroll in 2017 for the 2016 waived compensation. On July 17, 2017, a fourth board member submitted a similar letter requesting reinstatement from and after January 1, 2016, but was only paid $9,000 retroactively from January 1, 2017. The authority lacks a formal procedure on waiver of compensation. We question the propriety of retroactively reinstating compensation that was previously waived. Additionally, the approval and payment of these retroactive payments were not handled consistently.

Executive Director Severance

At the December 6, 2016 public meeting, the board announced that the Executive Director would be leaving the authority effective December 31, 2016, and consistent with his employment agreement he would receive a severance equal to one year of his $225,000 base salary. Our review of the employment agreement identified that severance shall be paid for a “Termination without Cause” or “Resignation for Good Reason” and any termination shall be communicated by a written Notice of Termination which indicates the specific termination provision relied upon. We requested the required written Notice of Termination and found that neither the authority nor the former Executive Director prepared this document. We also reviewed the Separation Agreement signed on December 31, 2016 and could not identify which party initiated the separation and under which circumstances. It appears the severance payment was released under conditions not consistent with the employment agreement and therefore was unauthorized without additional board action.

CASINO REINVESTMENT DEVELOPMENT AUTHORITY (continued)

Potential Cost Savings

The authority maintained two separate payrolls, one primarily for former ACCVA employees and the other for the remaining employees. These two payrolls were processed on a weekly basis and direct deposit was not mandatory. We estimate that the authority could reduce payroll processing costs by an estimated $15,000 per year if the two payrolls were consolidated into one, payroll was processed on a bi-weekly basis, and direct deposit was mandatory. Additionally, the elimination of weekly payroll would reduce administrative time spent on this function.

Observation

Host Awards

The Authority should evaluate the spending on the awards gala.

The CRDA facilitates the annual Atlantic City Host Awards to honor employees in the tourism and hospitality industry who enhance the experience for Atlantic City visitors. It hosts a gala to honor the nominees and award recipients. Complimentary tickets are given to each nominee and a guest in addition to CRDA staff and board members. Additional tickets for the event are sold but do not cover the cost of the event, resulting in an average net expense of $61,000 to the authority. The authority should consider examining the program to determine if the level of spending on the gala to present the host awards is an effective use of CRDA funds.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
NJ FAMILYCARE ELIGIBILITY DETERMINATIONS

Unreported Income

Our match with New Jersey Gross Income Tax (GIT) returns disclosed unreported income.

We found some NJ FamilyCare (NJFC) recipients did not report all income on their applications, and with the counties' and vendor's limited ability or use of data to verify an applicant's non-wage income, these omissions may result in incorrect income eligibility determinations. We matched all recipients receiving NJFC benefits as of May 23, 2016 with filed 2015 GIT returns to verify if all income was being reported on the NJFC applications. We identified 1,337 NJFC recipients who applied for benefits after January 1, 2016 and filed a 2015 tax return, or were listed as a spouse or a dependent on a tax return, and who reported between $100,000 and $4.2 million in taxable income. Once arriving at this segment of the population, we focused on those whose total income was more than 150 percent of their wages. We identified 1,002 of these recipients having $3.9 million in potentially improper capitation payments and paid fee-for-service claims during calendar year 2015. We further noted that 949 of these recipients used their NJFC benefits at least once during this period. In order to determine ongoing eligibility, we matched the same 1,337 recipients to their 2016 GIT return and found 410 recipients who would not have been eligible in 2016.

We noted that the guardians of two recipients listed as dependents on the tax return of the guardian reported $1.47 million in taxable income, of which $1.3 million was reported as S corporation income on their 2015 tax return. In addition, $129,895 in wages was reported. They also reported interest income, dividends, net gains, and rental income. Other examples include a tax return showing taxable income of $404,055, of which $386,864 was net gains; and another tax return showing $345,702 in taxable income, of which $343,929 was attributed to net gambling.

In accordance with the Department of Human Services, Division of Medical Assistance and Health Services' (division) Medicaid Communication No. 14-12, income is calculated based on Modified Adjusted Gross Income (MAGI), which is the taxable amount after certain exceptions are deducted. In addition, MAGI is calculated by adding back tax-exempt interest, foreign-earned income, and non-taxable Social Security benefits to the adjusted gross income. By signing the application for benefits, applicants authorize the New Jersey Division of Taxation (Taxation) to release their tax return information to the counties or the vendor for eligibility determinations. Per the division's agreement with Taxation, the counties and the vendor are only permitted to use taxable interest income, dividends, net profits from business, net gains or income from property, distributive shares, S corporation income, and net gains or income from rent reported on the New Jersey tax return to determine NJFC eligibility. The division's agreement does not permit the use of wages reported on the New Jersey tax return even though

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
NJ FAMILYCARE ELIGIBILITY DETERMINATIONS (continued)

this information is provided by Taxation. Because of this, and that they do not have access to out-of-state wage information, the counties and the vendor cannot verify the accuracy of wages earned outside of New Jersey. Gambling winnings and alimony payments reported on the New Jersey tax return also cannot be used for eligibility determinations. Furthermore, based on the agreement, only tax returns for the applicant can be utilized, not those where the applicant is listed as a dependent on another's tax return.

We noted that the vendor only receives New Jersey tax information for the initial applications and not for redeterminations, and the counties do not appear to review this tax information. We also noted that the counties and the vendor have access to, and are permitted to review, income data collected and maintained by the New Jersey Department of Labor and Workforce Development. This includes quarterly wage information, unemployment benefits information, and disability benefits information. However, the counties and the vendor do not have access to information regarding income earned outside of New Jersey.

In addition, the division is not in compliance with Medicaid Communication No. 14-12 which states the Federal Data Services Hub (FDSH) is to be used to electronically verify information on an application. The FDSH gathers information from the Internal Revenue Service (IRS), as well as other federal data sources to verify information regarding income, citizenship, immigration status, Social Security number, and Medicare status for New Jersey. The division has decided not to utilize the IRS information because of the stringent background requirements regarding access to this data.

Income Eligibility

Periodic matches with the New Jersey wage reporting system should be performed.

Wage Reporting

In a match of all recipients enrolled as of May 23, 2016, we identified 125 recipients enrolled through the counties and 10 recipients enrolled through the vendor having New Jersey wages more than $25,000 in the second quarter of calendar year 2016, and having total earnings of $100,000 or more for the year. These recipients remained actively enrolled in NJFC as of March 1, 2017. The general information necessary to determine which NJFC program an individual qualifies for is their income, household size, and relationship to other household members. An adult with an annual income of $100,000 would need to have a household size of 17 to qualify for NJFC. The largest household size for these recipients was six. We further noted that during 2016, coverage for 123 of these ineligible recipients enrolled through the counties and all recipients enrolled through the vendor resulted in improper capitation payments or fee for service claims totaling $596,012. In addition, 97 of these recipients enrolled through

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the county and 7 enrolled through the vendor actually used their benefit during calendar year 2016.

Some examples of ineligible individuals identified during testing include the following.

- One recipient with wages totaling $212,417 had a household size of five. To qualify for the assigned program, the annual income limit based on household size was $37,826. This individual would need to have a household size of 37 to be enrolled in the same program.

- One recipient had wages of $241,923 and was the only member of the household. The maximum salary for a single adult was $16,395.

- One recipient had wages of $139,957 and became employed with the State of New Jersey at the end of 2016. This recipient had a salary of $128,000 for calendar year 2017.

We found that all but eight of the recipients we tested had overdue or missing redetermination dates in Medicaid Eligibility System. Furthermore, we found that neither the counties nor the vendor performed periodic matches to New Jersey's wage reporting system until the annual redetermination was performed. These matches would identify recipients who potentially do not qualify based on income and should be further reviewed.

State Employees

In accordance with federal regulations, individuals are permitted to be enrolled in both NJFC and the state health benefits program as long as their income is at or below 133 percent of the federal poverty level based on their household size. We tested 96 state employees with biweekly wages of $1,500 during pay period 11 (May 14th-27th) of calendar year 2016, who were receiving NJFC benefits as of May 23, 2016 while also receiving state health benefits during their NJFC enrollment. Of these state employees, we noted 89 were still actively receiving NJFC benefits as of June 1, 2017 but were ineligible for these programs based on their income and household size. Improper capitation payments and fee-for-service claims incurred by the 89 recipients totaled $444,406 during calendar year 2016. Eighty of these recipients used their NJFC benefit during this same period.

Periodic matches to the New Jersey wage reporting system would identify recipients that potentially do not qualify based on income.

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List of Excluded Individuals and Entities

The U.S. Department of Health & Human Services Office of Inspector General's List of Excluded Individuals/Entities (LEIE) provides information to the healthcare industry, patients, and the public regarding individuals and entities currently excluded from providing and billing federally funded healthcare programs due to convictions for program-related crimes. We matched NJFC recipients active on May 23, 2016 to the LEIE database on December 16, 2016 and identified 103 recipients who were on the list. Although these individuals are not excluded from receiving NJFC benefits due to the nature of their program-related offenses, we considered them to be a high risk population and tested their eligibility solely based on New Jersey wages reported.

We found that 18 of the 103 recipients (17 percent) should either not have received benefits, or should have had their benefits terminated, based on New Jersey wages reported. Of the 18 recipients, we determined 7 should not have been eligible at the time of their application, and the remaining 11 had exceeded the income thresholds during their eligibility period. Capitation payments and fee-for-service claim amounts between January 1, 2015 and June 30, 2017 for the 7 recipients who were not eligible at the time of application totaled $33,908; the capitation payments and fee-for-service claims for the 11 recipients who became ineligible during their benefit period totaled $57,753. In addition, 16 of the 18 used their benefit during the same time period. These improper payments could have been avoided had these individuals been identified by periodically checking the New Jersey wage reporting system and either denied coverage or terminated from NJFC.

Inaccurate Social Security Numbers

$177.5 million of potential improper payments were associated with recipients who are identified in the system with invalid and/or duplicate Social Security numbers.

We identified 18,020 recipients enrolled in NJFC on May 23, 2016, as per the Medicaid Eligibility System, having invalid and/or duplicate Social Security numbers (SSNs). All recipients we found were over the age of two, and their SSN was not associated with deceased individuals, (noted later in this report) or eligible aliens who do not need a SSN. In accordance with Title 42 of the Code of Federal Regulations, SSNs are a required condition of eligibility. They are used to research eligibility criteria such as wages, unemployment, and disability. Inaccurate information provides incorrect research results and leads to improper eligibility determinations. As of January 20, 2017, as per federal regulation, SSNs must be validated with the Social Security Administration (SSA) to ensure a recipient's SSN is accurate.

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Potential improper capitation and fee-for-service claim payments totaling $177.5 million were made between July 1, 2014 and July 30, 2017 on behalf of 17,952 recipients who we identified as having inaccurate SSNs. We further noted that 85 percent of those with an inaccurate SSN used their benefit during our audit period.

Initial Verification of SSN

The vendor uses the State Verification and Exchange System (SVES) to validate a recipient's identity, SSN, and citizenship status with the SSA. The SVES verification is only done for new recipients, not for those going through the annual redetermination process. We reviewed the SVES verification process for 454 recipients and found that 9 had no information relating to the verification, 17 had a request for verification but no reply information, and 40 returned a failed match relating to their SSN. Despite failing or not completing this verification process, all 66 still continued to receive benefits. We found that only 4 of the 40 failed match recipients were sent a letter by the vendor requesting proof of the recipient's SSN. We reviewed the case files for each of these 40 recipients and found that 14 had no social security cards on file; 16 had social security cards on file but no proof the cards were reviewed; and 10 submitted their social security cards six or more months after the SVES verification process was completed. While the SVES process communicates electronically with the SSA, the follow-up to the response is a manual process. An agent of the vendor must follow-up with the recipient to request and review the required information to verify eligibility. Requesting and reviewing the required information is imperative to ensuring only eligible recipients are enrolled in NJFC.

Deceased Recipients

$728,747 in capitation payments and fee-for-service claims were expended for recipients after their date of death.

We matched recipients receiving NJFC benefits as of May 23, 2016 to VERIS, a social security number validation service, and noted 41 recipients had capitation payments ($510,834) and fee-for-service claims ($217,913) after their reported date of death. In 30 of these cases, we found additional verification of their death, such as an online obituary or death certificate. Of these 30, 28 recipients had improper capitation payments and fee-for-service claims totaling approximately $418,221.

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Health Benefits Coordinator Employees

The health benefits coordinator (vendor) does not closely monitor its own employees enrolled in NJFC.

We tested to determine the eligibility of employees of the vendor who were receiving NJFC benefits. We matched the NJFC recipient population as of May 23, 2016 to individuals on the vendor's payroll in the second quarter of calendar year 2016. We noted 29 employees who were enrolled through the vendor and receiving benefits. We identified five employees (17 percent) whose eligibility we questioned due to late redeterminations and/or not meeting the income criteria, but they remained actively enrolled in NJFC through July 30, 2017. For example, one employee, with a family size of four, qualified at the time she applied in the second quarter of 2015, however, she failed to report her spouse's subsequent employment income of $19,217. This income was earned in the quarter following her enrollment, making the household income for the quarter $25,562, rendering her ineligible for NJFC benefits. We further noted her 2016 application was submitted in May of 2016 with a note in the system indicating the application had been sent to a supervisor. Her redetermination date was listed as June 1, 2016, however, no action on her redetermination was taken. Based on the household wages reported in New Jersey, she would not have qualified to receive NJFC benefits, but she still remained active. By signing the application, the recipient agrees to disclose all changes in circumstances relating to eligibility, including changes in income. Employees of the vendor are involved in various aspects of the benefits process, and have an understanding of eligibility criteria. All five employees we identified used their benefits during the period we reviewed.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES AND DIVISION OF AGING SERVICES
MANAGED LONG-TERM SERVICES AND SUPPORTS

Background

New Jersey received federal approval in 2012 for Department of Human Services, Managed Long-Term Services and Supports (MLTSS) under the 1115(a) demonstration waiver known as the Comprehensive Medicaid Waiver. MLTSS shifted how the state paid for long-term care services from fee-for-service (FFS) to a managed care capitation payment methodology. MLTSS was implemented in July 2014 with the goals of improving the quality of long-term care, rebalancing the state’s long-term care system from its traditional reliance on nursing homes towards a greater emphasis on home and community-based services, and reducing the cost of long-term care. Medicaid beneficiaries who entered a nursing home for the first time after July 1, 2014 were required to enroll in MLTSS. Medicaid beneficiaries residing in nursing homes prior to July 1, 2014 were exempt from MLTSS enrollment and remained FFS.

Home-Based Beneficiaries Not Receiving Any MLTSS Service

Enhanced capitation totaling $76.2 million was paid to Managed Care Organizations (MCOs) for those MLTSS home-based beneficiaries who opted not to utilize MLTSS services.

The Department of Human Services, Division of Medical Assistance and Health Services (DMAHS) does not require beneficiaries to utilize any MLTSS service on a regular basis. Beneficiaries are only required to receive care management, which is not considered an MLTSS service. Our analysis of MCO encounter claims (payments made by the MCOs to service providers) for 17,465 MLTSS beneficiaries in a home-based setting as of February 2017 disclosed 2,777 (16 percent) opted not to receive any long-term care services at a level requiring MLTSS enrollment from March 2016 through February 2017. Our result was conservative in that it included only beneficiaries enrolled in MLTSS for the entire year. We also excluded beneficiaries from our result if they had even one claim for an MLTSS service during the year.

We estimated that continued enrollment of the beneficiaries who opted not to receive any services requiring MLTSS enrollment for a period of one year resulted in $76.2 million in enhanced capitation paid to the MCOs. While shifting these beneficiaries to a non-MLTSS benefit plan could result in increases to the capitation rates paid to the MCOs for non-MLTSS beneficiaries, enhanced capitation payments for those MLTSS home-based beneficiaries who opt not to utilize MLTSS services should be avoided. In calculating the $76.2 million, we included only those beneficiaries receiving 40 hours or less of personal care assistant (PCA) services per week, as this level of service can be provided to any non-MLTSS beneficiary per regulations.

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Our analysis disclosed 2,524 of the 2,777 home-based beneficiaries received PCA and/or medical day care (MDC) services during the period analyzed. These are state plan services that do not require enrollment in MLTSS, but may be beneficial to the support of a home-based MLTSS beneficiary. PCA involves hands-on personal care with health related tasks in a beneficiary's home under the supervision of a registered nurse, while MDC provides medically necessary and social services in an ambulatory setting to meet the needs of beneficiaries and to support their living in the community. When home-based beneficiaries do not receive any MLTSS services, enhanced capitation payments to MCOs result. The 2,777 beneficiaries who did not receive an MLTSS service for the year included 1,696 who received only PCA services and 239 who received only MDC services.

Non-MLTSS beneficiaries who receive PCA services have a care management component similar in some aspects to MLTSS beneficiaries. Regulations require that a registered professional nurse assess the beneficiary, develop a plan of care, and provide direct supervision of the personal care assistant at least once every 60 days. In addition, a nurse must reassess the beneficiary's need for continued care at least every six months or more frequently if the beneficiary's condition warrants. MDC services are the same regardless of whether a beneficiary is enrolled in MLTSS or a non-MLTSS benefit plan.

The 2,777 beneficiaries included 253 who did not receive any long-term care services at all during the year analyzed. These beneficiaries received only care management services. Enhanced MLTSS capitation totaling $11.2 million was paid to the MCOs for these beneficiaries for the year. We estimated non-MLTSS capitation would have totaled $1.9 million for the same period.

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Our further analysis of encounter claim data disclosed PCA and MDC accounted for 78 percent of the cost of long-term care services utilized by MLTSS home-based beneficiaries for fiscal year 2017 as illustrated by the following chart.

FY 2017 MLTSS Home-Based Beneficiaries' LTC Encounter Claims

Service	Dollars	% of Total Dollars	
Personal Care Assistance	$ 214,582,253	62.6%	} 78%
Medical Day Services	$ 53,292,239	15.5%	
Private Duty Nursing	$ 32,707,193	9.5%	
Community Residential Services	$ 9,609,641	2.8%	
Home-Delivered Meals	$ 8,121,645	2.4%	
Home-Based Supportive Care	$ 6,275,738	1.8%	
Cognitive Therapy	$ 3,542,990	1.0%	
Structured Day Program	$ 2,923,639	0.9%	
Personal Emergency Response System	$ 2,543,302	0.7%	
Respite	$ 2,075,286	0.6%	
Occupational Therapy	$ 1,582,656	0.5%	
Physical Therapy	$ 1,574,298	0.5%	
Residential Modifications	$ 1,083,053	0.3%	
Speech, Language and Hearing Therapy	$ 1,006,927	0.3%	
Other	$ 1,913,192	0.6%	
Total	$ 342,834,051		

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To determine if beneficiaries were receiving more than the maximum 40 hours of PCA services per week allowed to non-MLTSS beneficiaries per regulations, we reviewed encounter claims for 160 of the 1,696 beneficiaries who received only PCA services from March 2016 through February 2017. We found only 10 percent were receiving more than 40 PCA hours per week as shown by the following chart.

Summary of test results of hours per week of PCA services 3/1/16 through 2/28/17

	10 or less	11 - 20	21 - 30	31 - 40	More than 40	Totals
MCO # 1	3	5	8	9	0	25
MCO # 2	1	5	4	8	8	26
MCO # 3	5	9	17	16	3	50
MCO # 4	1	12	8	7	1	29
MCO # 5	0	6	11	10	3	30
Totals	**10**	**37**	**48**	**50**	**15**	**160**
Percentage	6%	23%	30%	31%	10%	100%

These levels of utilization of PCA services could have been provided to the majority of the home-based beneficiaries tested through non-MLTSS Medicaid at a much lower capitation rate. The following are examples of cases we reviewed of home-based beneficiaries receiving minimal weekly PCA hours.

- A beneficiary received only nine PCA hours per week from November 2015 through May 2018 at an encounter claim cost of $15,700. Enhanced capitation totaling $98,700 was paid to the MCO. Non-MLTSS capitation would have totaled approximately $14,500 for the same period.

- A beneficiary received only six hours of PCA per week from July 2014 through May 2018 at an encounter claim cost of $12,400. Enhanced capitation totaling $142,400 was paid to the MCO. Non-MLTSS capitation would have totaled approximately $22,200 for the same period.

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MANAGED LONG-TERM SERVICES AND SUPPORTS (continued)

Home-Based MLTSS Beneficiaries Receiving only Care Management Services

The following are examples of the 253 MLTSS home-based beneficiaries who did not receive any long-term care services.

- A beneficiary in a home-based setting since July 2014 whose only clinical assessment completed January 2015 indicated the beneficiary "reports to be independent with bathing, grooming, meal preparation, dressing, and toileting" and "ambulates and transfers independently without an assistive device or assistance". A review of the MCO's case file disclosed the beneficiary refused services and had no plan of care. Enhanced capitation totaling $132,600 was paid from July 2014 through February 2018 for this beneficiary. Non-MLTSS capitation payments would have totaled approximately $20,800 for the same period. Following our inquiries, the beneficiary's MLTSS coverage was terminated.

- A beneficiary in a home-based setting since December 2015 received no long-term care services for two years until December 2017 when a personal emergency response system was installed in his home at a total cost to the MCO of $334 as of June 2018. Enhanced capitation totaling $94,000 was paid to the MCO from December 2015 through June 2018 for this beneficiary. Non-MLTSS capitation would have totaled approximately $14,500 for the same period.

Our review of MCO case files for 86 of the 253 beneficiaries noted MCOs were not able to provide a plan of care for 39 of the beneficiaries for the year tested. Of the 47 beneficiaries for whom we were able to obtain a plan of care, 31 had plans of care that did not include a long-term care service. We found no encounter claims indicating any service was provided for the remaining 16 beneficiaries whose plans of care included a long-term service.

As part of its quality monitoring activities, DMAHS has developed various MLTSS performance measures. Our review of the following three MCO reported performance measures related to services received by MLTSS beneficiaries supported our findings that beneficiaries are not receiving an MLTSS service.

- MCOs reported an average of 25 percent of MLTSS beneficiaries did not receive an MLTSS service in each of the first three quarters of fiscal 2017.

- MCOs reported an average of 15 percent of MLTSS beneficiaries in a home and community-based setting received only PCA services in each of the first three quarters of fiscal 2017.

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- MCOs reported an average of 4 percent of MLTSS beneficiaries in a home and community-based setting received only MDC services in each of the first three quarters of fiscal 2017. One MCO reported an average of 13 percent.

Impact of MLTSS Enrollment on Capitation Payments

For fiscal years 2015 through 2017, MCOs received an average MLTSS capitation rate of \$2,712 per month for a home-based beneficiary with Medicare and \$7,921 per month for a home-based beneficiary without Medicare. For the same period, MCOs received an average capitation rate of \$6,416 per month for a non-specialized care nursing home beneficiary with Medicare and \$9,212 per month for a non-specialized care nursing home beneficiary without Medicare.

Beginning in fiscal year 2018, a blended statewide nursing home/home and community-based rate was implemented to incentivize MCOs to keep beneficiaries in a less expensive home-based setting. For fiscal year 2018, MCOs were paid a blended monthly capitation rate of \$4,133 for a home-based or non-skilled nursing home beneficiary with Medicare and \$8,414 per month for a home-based or non-skilled nursing home beneficiary without Medicare.

By comparison, monthly capitation rates for non-MLTSS beneficiaries were significantly less. For fiscal years 2015 through 2018, non-MLTSS capitation rates averaged \$473 per month for a beneficiary with Medicare and \$1,315 per month for a beneficiary without Medicare.

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Home-based beneficiaries receiving only PCA or MDC services or only care management services could be enrolled in a non-MLTSS benefit plan at a significantly lower monthly capitation rate. Enrollment of such beneficiaries in MLTSS results in enhanced capitation payments. The following chart demonstrates the impact MLTSS enrollment has on annual capitation paid for a home-based MLTSS beneficiary versus a non-MLTSS beneficiary.

Annual MLTSS Capitation vs. Non-MLTSS Capitation per Beneficiary for Fiscal Year 2018

	Annual Capitation Paid	
MLTSS Home-Based beneficiary (with Medicare)	$	49,596
Non-MLTSS beneficiary (with Medicare)	$	5,652
Additional annual capitation paid per beneficiary due to MLTSS enrollment	$	43,944
MLTSS Home-Based beneficiary (without Medicare)	$	100,968
Non-MLTSS beneficiary (without Medicare)	$	15,948
Additional annual capitation paid per beneficiary due to MLTSS enrollment	$	85,020

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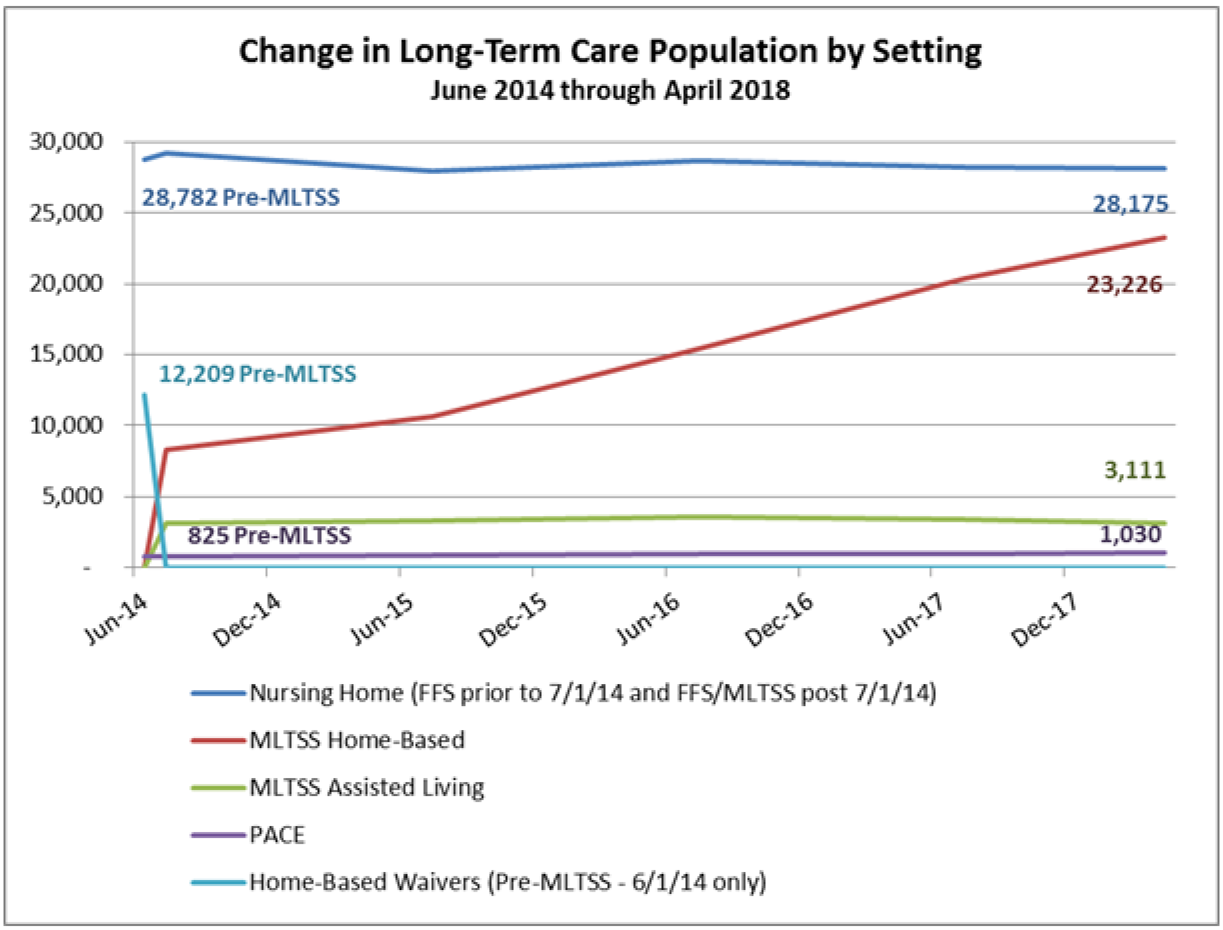
MANAGED LONG-TERM SERVICES AND SUPPORTS (continued)

Impact of MLTSS on the Long-Term Care Population

The long-term care population has increased significantly since the implementation of MLTSS. In June 2014, the month preceding the implementation of MLTSS, a total of 41,816 beneficiaries were receiving long-term care services via a FFS payment methodology in a nursing home (28,782), community waiver (12,209), or Program of All-Inclusive Care for the Elderly (PACE) (825). As of April 2018, the long-term care population increased by 33 percent to 55,542 beneficiaries. The increase can be attributed to the substantial increase in the home-based population as demonstrated by the following chart.



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The community-based population which is comprised of home-based and assisted living beneficiaries more than doubled from the June 2014 waiver population of 12,209 to 26,337 as of April 2018. This is attributed to the increase in home-based beneficiaries because the assisted living population has remained relatively stable. During the same period, the nursing home population decreased by only 607 beneficiaries. The increase in the home-based population can be partially attributed to beneficiaries in a home-based setting who are not receiving an MLTSS service.

Clinical Eligibility

Beneficiaries are automatically enrolled in MLTSS based on outdated clinical eligibility determinations, and MCOs are not clinically assessing those beneficiaries timely.

The NJMMIS contains a system edit which automatically enrolls beneficiaries who have both financial and clinical eligibility present in the system, regardless of whether those beneficiaries are actually seeking or needing long-term care services. Beneficiaries automatically enrolled in MLTSS are not notified of their enrollment until the MCO receives notification. The MCO then initiates the proper MLTSS procedures, such as completing a clinical assessment and plan of care. Despite Office of Community Choice Options' (OCCO) policy that a clinical assessment is valid for one year, prior to January 2018, the system recognized any approved clinical assessment determination from July 2014 forward, as valid.

The MCOs are responsible for obtaining a copy of an existing clinical assessment or conducting a clinical assessment themselves, completing the initial face-to-face beneficiary visit, and completing the beneficiary plan of care within 45 calendar days of MLTSS enrollment notification. Upon request from OCCO, MCOs shall receive a completed clinical assessment and interim plan of care for non-managed care individuals newly enrolled in MLTSS for whom the assessment was conducted and OCCO considers current. An unwritten OCCO internal policy considers a four-month old OCCO conducted clinical assessment for non-managed care individuals current.

We reviewed MLTSS enrollment as of January 2018 (41,028 beneficiaries), including the PACE population (which also requires clinical eligibility), and identified 677 (1.7 percent) beneficiaries who were enrolled based on a clinical assessment determination greater than 13 months before their MLTSS enrollment date. Of the 677 beneficiaries, MCOs did not complete timely clinical assessments or beneficiary plans of care within 45 calendar days of enrollment notification for 208 (30.7 percent) beneficiaries.

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One non-managed care individual, enrolled in MLTSS based on an outdated 21-month clinical assessment determination, was clinically approved on October 27, 2015. This individual was enrolled in NJ FamilyCare for the first time on April 1, 2016 and automatically enrolled in MLTSS on August 1, 2017 based on the October 27, 2015 clinical assessment determination, which was then 21 months old. The MCO was first notified of the beneficiary living outside of the country on August 1, 2017, and notified OCCO of this on August 7, 2017. OCCO was notified by the MCO again on October 5, 2017 and again on February 9, 2018. The MCO never completed a clinical assessment or any plan of care. The beneficiary was clinically terminated on April 18, 2018 and MLTSS enrollment ended accordingly on April 30, 2018. Enhanced capitation totaling $34,700 was paid to the MCO.

In January 2018, the division implemented an NJMMIS edit requiring a clinical assessment determination date of January 2016 or newer to initiate automatic enrollment in MLTSS. With no current plan to adjust the January 2016 date, the system will allow automatic MLTSS enrollment based on outdated clinical assessment determinations.

As of May 4, 2018, only 9 of the 677 beneficiaries were clinically terminated from MLTSS coverage. These terminations occurred due to beneficiaries being unable to be contacted, voluntarily withdrawing, or no longer meeting clinical eligibility. While the number of clinical terminations appears low, this number could increase due to allowing increasingly outdated clinical assessment determinations to initiate automatic MLTSS enrollment. The low number of clinical terminations may also be attributed to MCOs not assessing beneficiaries within the required 45 calendar days, OCCO not monitoring MCOs assessing beneficiaries within 45 calendar days, and untimely clinical terminations.

DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
HEALTH BENEFITS ADMINISTRATOR CONTRACTS

Administrative Services Only Fees

Self-billed Administrative Services Only Fees are derived using incorrect rates.

The Administrative Services Only Fee (ASO Fee) is paid to the administrators and acts as the only compensation due unless additional fees are mutually agreed upon between the State of New Jersey and the administrator for the self-insured health benefits plans. The ASO Fee is determined by applying the specific fee rate to the number of participating employees/retirees. The ASO Fee rates are adjusted annually and are based on plan type: Preferred Provider Organization (PPO) plans, Health Maintenance Organization (HMO) plans, High-Deductible Health Plans, and Tiered Network plans; and employee/retiree groups: State Employee Group (active and retired), Local Government Employer Group (active and retired), and the School Employees' Health Benefits Program (active and retired). The ASO Fee rates are submitted to the Office of Information Technology (OIT) for input into the State Health Insurance Processing System prior to the start of the calendar year. The fee is self-billed by the division and paid to the administrators on a monthly basis.

We reviewed the monthly ASO Fee payments made by the Department of the Treasury, Division of Pensions and Benefits (division) to the administrators for accuracy. Samples of five monthly payments were judgmentally selected for each administrator. Of the five monthly payments, three to each administrator were found to have errors in the calculations performed by the division as outlined below.

- The errors we found in the payments to one administrator were caused by an additional fee being improperly included in the ASO Fee rates for active members across all health benefits plans in calendar years 2016 and 2018. This fee was billed separately to the division by the administrator and should not have been included as part of the ASO Fee. The errors resulted in total overpayments of $1.7 million by the division for ASO Fees during calendar years 2016 and 2018 as of April 30, 2018.

- The errors we found regarding the other administrator were caused by a higher HMO rate being improperly applied to all active members of a PPO plan and a fee not being properly included in the ASO Fee rate for all members of the Tiered Network plan. Both errors were found in calendar year 2016 ASO Fee payments with the Tiered Network plan error partially offsetting the PPO plan error. The errors resulted in a net overpayment of $425,000 by the division.

DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION
TAX DEBT COLLECTION

Unassigned Cases and Set-offs

The collection agency has a significant amount of unassigned cases.

The Department of the Treasury, Division of Taxation (division) entered into an agreement with Pioneer Credit Recovery, Inc. (collection agency) to perform administration, resolution, and collection of deficient and delinquent taxes. Individual and business deficient tax debt collection cases that meet the minimum liability amount are automatically transferred to the collection agency's backlog within the division's case tracking system (TULIPS) approximately 90 days after they are created in TULIPS or billed by the division to the taxpayer. The minimum liability amount assigned to the collection agency is $100, except for Corporate Business Tax which is $250. Delinquent cases are transferred to the collection agency approximately 45 days after they are created in TULIPS.

Unassigned Cases

The collection agency employs approximately 150 caseworkers for tax debt collection. It was assigned 452,000 total cases as of June 22, 2017. Of these, 427,000 were not assigned to collection agency caseworkers. When a case is unassigned, there is no communication with the taxpayer regarding their outstanding tax liability. The aging of unassigned cases by last activity date as of June 22, 2017 was as follows.

Days Since Case's Last Activity	Number of Cases
0 – 30	7,389
31 – 60	6,783
61 – 90	22,067
91 – 120	3,377
121 – 365	89,691
366 – 730	112,567
731 – 1,460	60,509
1,461 – 2,920	97,946
2,921+	26,801
Total	**427,130**

DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION
TAX DEBT COLLECTION (continued)

Although the collection agency is meeting its minimum revenue requirement per the contract, the caseload is too voluminous for the number of personnel employed. As a result, many cases are not being worked on in a timeframe that would enhance collections. Working on tax debt collection cases in a timely manner is pivotal for the division to collect revenue for prior tax debts.

Set-offs

Pursuant to N.J.S.A. 54:49-19 and the Department of the Treasury Circular No. 16-09-OMB/TAX, the division is required to "set-off" the tax debt of contracted vendors providing services to the state. The circular states that the division may begin the set-off process 90 days after issuing the state vendor a "Notice and Demand for Payment" (demand letter) for any state tax owed. A set-off reduces the payment to the contract vendor by the amount of the vendor's state tax indebtedness.

Usually, deficient cases are eligible for set-off. We compared and analyzed fiscal year 2016 state contract vendors to those that had open collection agency deficient tax debt cases prior to July 1, 2016. The analysis disclosed 48 state contract vendors having deficient tax debt cases but receiving payments from the state for services. Of these, 37 vendors had "unassigned cases." Since demand letters are not distributed to vendors when cases are unassigned, the set-off process cannot be initiated by the division. The state could have received up to $135,000 in possible set-offs for these unassigned cases.

Our analysis also disclosed 667 non-contract state vendors having deficient tax debt cases prior to July 1, 2016 but they received payments from the state for services in fiscal year 2016. Possible set-offs for these vendors totaled $1.1 million. We judgmentally selected 15 vendors and noted 14 could have been set-off if the division was able to use the same criteria as state contract vendors. Of the 14 vendors, 12 had cases that were unassigned with no demand letters mailed to the vendor. The other two vendors had cases that were assigned and appropriately mailed demand letters, but set-off letters were not sent to the debtor.

Uncollectible Case Oversight

The division should strengthen controls over the transferring of tax debt cases to the uncollectible status.

A division policy defines uncollectible cases as those where the division "has made all reasonable efforts to collect money owed to it and generally if the debt is older than 10 years." Additional factors the division utilizes to terminate active collection on a case includes the division not being able to locate the debtor and when the cost of collection on a case is

DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION
TAX DEBT COLLECTION (continued)

anticipated to exceed the amount recoverable. All uncollectible cases for the division are within the same uncollectible status in TULIPS. Division policy requires caseworkers to record their notes in the Taxpayer Registration (TaxReg) system and to detail the reason the case was transferred to the uncollectible status.

There were 214,942 cases in the division's uncollectible status as of May 25, 2017. Collection agency or division employees transferred 446 cases from the collection status to the uncollectible status from July 1, 2015 through May 25, 2017. We judgmentally selected 25 uncollectible cases for testing and noted seven cases, totaling approximately $90,000, were moved to the uncollectible status incorrectly. In addition, 20 of the 25 cases did not have notes recorded in the TaxReg system by the caseworker to support the transfer to the uncollectible status.

We also noted that any caseworker can transfer a tax debt collection case to the uncollectible status without supervisory approval. The division does not have an employee specifically assigned to review the uncollectible status and the movement of cases. As a result, there are no compensating controls over the process of transferring cases as uncollectible. This allows cases to be classified as uncollectible in error and could result in the division losing tax revenue.

Separated Employees

The collection agency should re-assign all cases from separated employees.

As of June 22, 2017, the collection agency had approximately 25,000 cases assigned to caseworkers. Of these, 4,900 (20 percent) totaling $2 million were assigned to separated collection agency employees as far back as 2006. It is the responsibility of collection agency management to reassign cases after an employee is separated. Most of the 4,900 cases (99 percent) were in a pending status. We sampled the top ten dollar amount cases and an additional 50 randomly selected cases. The results indicated that five cases ranging from $1,300 to $46,000 should have been reassigned to collection agency employees as they were placed in the pending status in error or information was never received. An additional two cases were subsequently reassigned to the division's Set-off of Individual Liability unit for having a liability under $1,000 after we notified the division. Most of the remaining cases (77 percent) tested require payment corrections in order for the cases to be closed.

In addition to those in pending status, there were 34 cases totaling approximately $236,000 in the assigned status that were assigned to separated employees. Included in this amount were cases with a liability amount of $111,600 assigned in 2008, and a liability amount of $67,900 assigned in 2012. By reassigning cases to current employees, the collection agency will increase collections, close cases when appropriate, and provide a more accurate snapshot of its caseload.

DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION
TAX DEBT COLLECTION (continued)

Vendor Collection Report

The billing process between the division and the collection agency should be improved.

Monthly billing is initiated by the division instead of the collection agency. The billing process originates with the division's system generated Vendor Collections Report (VCR) which details monthly revenue recorded in cases assigned to the collection agency. The division has a Contract Management Unit (CMU) whose primary purpose is to review this report. The CMU analyzes the VCR to determine if the report includes items that are inaccurately deemed revenue eligible or ineligible to the collection agency, such as manual adjustments in the system and overpayments. The collection agency also reviews the VCR for any considerations it believes should be included as revenue eligible. The CMU makes a final determination on those considerations. The collection agency then provides the division with a bill totaling the final VCR amount.

The CMU consists of a supervising investigator and five staff investigators. Based on our inquiry, division management estimated that the CMU investigators spend 400 hours each month (nearly half of their time) reviewing and adjusting the VCR. We performed a cost-benefit analysis of fiscal year 2016 activity by allocating CMU investigators' hours spent on the VCR and calculating their salary and fringe benefit costs. We compared this result to the change from the initial system generated VCR to the final VCR generated by the CMU. We found the investigators' salary and benefits costs totaled $246,000, while the final adjusted bills actually increased by $251,000. Therefore the benefit to the state of utilizing CMU investigators to review the VCR does not appear to outweigh the cost.

The CMU investigators could be more effectively utilized by performing casework and assisting in the division's collection efforts for deficient and delinquent taxes. Division management estimates that each investigator performing casework would collect an additional $750,000 to $1 million annually. By utilizing these estimates, we calculate division collections would be enhanced by at least $3 million.

DEPARTMENT OF BANKING AND INSURANCE ADMINISTRATION

Background Checks

Criminal history background checks are not required for department employees.

The Department of Banking and Insurance (department) regulates the banking, insurance, and real estate industries in the State of New Jersey. This includes issuing licenses to qualified individuals and companies, ensuring the entity's solvency and compliance with existing statutes and regulations through regular examinations and analysis, protecting the public from unlawful practices, promptly investigating complaints filed by consumers, and aggressively prosecuting violators. Licensees are required to complete both Federal Bureau of Investigation (FBI) and New Jersey state criminal history background checks.

Department employees directly responsible for regulating these industries are not subject to the same stringent standards as those licensed by the state. In the normal course of their work, department employees have access to highly sensitive personal information such as social security numbers, bank account numbers, insurance information including medical data, and proprietary business data which could be misused and therefore negatively impacting an individual's or business's financial condition and the department's reputation.

The department's enabling legislation does not provide it with statutory authority to perform criminal history background checks on its own employees. Authorization to perform federal background checks requires a federally-approved state statute. The Code of Federal Regulations Title 28 indicates the FBI may exchange identification records, if authorized by state statute and approved by the Director of the FBI, with officials of state government for purposes of employment and licensing.

DEPARTMENT OF CORRECTIONS
GARDEN STATE YOUTH CORRECTIONAL FACILITY

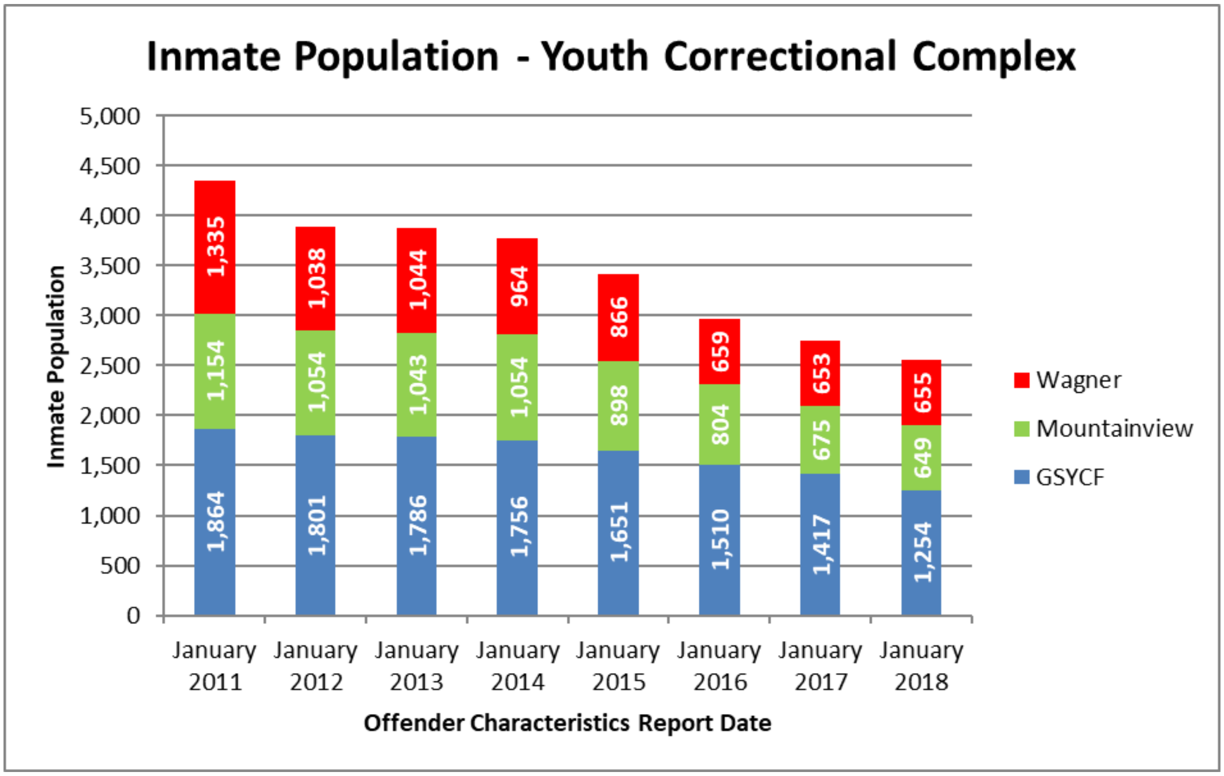
Observation

Youth Correctional Facilities

The Department of Corrections (department) should determine if it continues to remain effective and efficient to operate all three youth correctional facilities. The department currently operates three youth correctional facilities known as the youth correctional complex. These three facilities are: Garden State Youth Correctional Facility (GSYCF), Albert C. Wagner Youth Correctional Facility (Wagner), and Mountainview Youth Correctional Facility (Mountainview). The properties of GSYCF and Wagner are adjacent to each other and are located in Crosswicks and Chesterfield, respectively. Mountainview is approximately 45 miles north of these facilities and is located in Annandale.

We analyzed historical expenditure data from the state accounting system and population statistics from the department's offender characteristic reports for each of the youth facilities. The inmate population at the three facilities was 2,558 as of January 2, 2018, which has declined by a total of 1,795 inmates (41 percent) since January 2011. We noted, GSYCF, Wagner, and Mountainview inmate populations have decreased by 610 (33 percent), 680 (51 percent), and 505 (44 percent), respectively, since January 2011. According to internal management reports, the total capacities of GSYCF, Wagner, and Mountainview are 1,996, 1,344, and 1,210, respectively. These amounts include 1,802 beds that have been temporarily closed or consolidated by the department. According to management, these beds could be repopulated if necessary. Overall, costs at the three facilities have declined by a total of $22.4 million between fiscal years 2011 and 2017; however, the cost per inmate has increased by approximately $12,000 during the same period. A portion of this increase may be attributable to cost increases over this period in certain spending categories; however, it is also probable that a portion of this increase is the result of the significant decline in inmate population and the continued operation of three facilities. As the population has declined, the department has proactively closed units within the youth facilities to achieve operating efficiencies and maximize the capacities in the remaining open units. This has resulted in the reduction of custody posts that would otherwise be required to be staffed if inmates resided in units that were significantly under capacity. The following chart provides an illustration of the declining inmate population at the three youth facilities between January 2011 and January 2018.

DEPARTMENT OF CORRECTIONS
GARDEN STATE YOUTH CORRECTIONAL FACILITY (continued)



We examined two different scenarios whereby one of the three facilities would be closed. The third scenario, closing GSYCF and utilizing Wagner and Mountainview, was not explored because the current total inmate population exceeds the combined capacity of the other two facilities. This would limit the department's flexibility if the inmate population spiked thereby causing overcrowding. The following scenarios were created for illustrative purposes.

Scenario One – Close Mountainview

In fiscal year 2011, GSYCF and Wagner housed approximately 3,199 inmates at a total cost of $106.9 million. By comparison, all three youth correctional facilities together housed approximately 2,745 inmates at a total cost of $128.0 million in fiscal year 2017. The total inmate population of the three facilities has further declined to 2,558 as of January 2, 2018, which is 641 inmates less than the population of the two facilities in fiscal year 2011 and 782 inmates less than the capacity.

Scenario Two – Close Wagner

In fiscal year 2011, GSYCF and Mountainview housed approximately 3,018 inmates at a total cost of $97.7 million. By comparison, all three youth correctional facilities together housed

DEPARTMENT OF CORRECTIONS
GARDEN STATE YOUTH CORRECTIONAL FACILITY (continued)

approximately 2,745 inmates at a total cost of $128.0 million in fiscal year 2017. The total inmate population of the three facilities has further declined to 2,558 as of January 2, 2018, which is 460 inmates less than the population of the two facilities in fiscal year 2011 and 648 inmates less than the capacity.

Any decision to consolidate facilities should carefully consider the department's mission of protecting the public by operating safe, secure, and humane correctional facilities.

Specifically, the department should consider: the impact on the department's budget and the potential for taxpayer savings; facility security concerns; staff and inmate safety; inmate classification levels; optimal operating capacity including the potential for overcrowding and the availability of temporary emergency housing (swing space); availability and capacity of classroom space for education and re-entry programming; demand and availability of administrative segregation (restricted) housing; staffing impacts including and not limited to post consolidation, reassignments, and reduction in force or potential job loss (attrition); impacts to local economies; facility age and maintenance costs; costs to repurpose or "mothball" a vacant facility; and legislative, union, and public input. Additional taxpayer benefits may be achieved by redeveloping a vacated facility.

DEPARTMENT OF EDUCATION
COUNTY OFFICES OF EDUCATION

County Offices of Education Responsibilities

Procedures maintained in compliance with the statutory duties of the Executive County Superintendent do not provide for the timely and independent assessment of a school district's facilities and academic and fiscal conditions.

The statutes enumerate the general powers and duties of the Executive County Superintendent (ECS). These duties cover a very diverse array of responsibilities. The ECS is to periodically visit and examine all schools within the county, keeping informed of the condition of the district's real and personal property in respect to construction, heating, ventilation, and lighting to ensure compliance with health and safety codes. Additional duties include, but are not limited to, advise and counsel the boards of education in relation to the performance of their duties, promote administrative and operational efficiencies and cost savings, eliminate districts located in the county that are not operating schools, promote coordination and regionalization of pupil transportation, review and approve specific employment contracts within the districts, review and approve all school budgets, and conduct regional planning to identify district special education program needs and facilitate shared special education services.

The wide array of responsibilities inhibits the completion of these duties in an effective and efficient manner. We visited five county offices throughout the state and reviewed selected aspects of the ECSs' responsibilities and found that certain areas rely on self-reporting by the districts. These include the health and safety of school facilities, budget transfers, kindergarten enrollment, and administrative hiring.

School Facilities

Knowledge of the condition of a district's real and personal property, particularly with respect to the construction, heating, ventilation, and lighting of school buildings is the responsibility of the ECS. The department has established a "Health and Safety Evaluation of School Building Checklist" which is a self-assessment each district is to complete annually for each school building and keep on file for inspection. When the county office performs the Quality Single Accountability Continuum for a district, the checklist is to be forwarded to the ECS for review. During our review, 9 of 38 districts we selected did not provide completed checklists to us when requested, and 3 were only completed at the time of our request. The lack of proper oversight of the condition of all school districts' buildings increases the health and safety risks to the students.

Budget Transfers

Specific transfers require ECS approval to ensure the district has implemented all potential efficiencies and circumstances warrant the transfer. Our review found that the county offices

DEPARTMENT OF EDUCATION
COUNTY OFFICES OF EDUCATION (continued)

rely on the CPA firm's post-audit of the district to determine whether all required transfers have been approved. Each district is required to maintain, and make readily available, a report of current month and year-to-date transfers between advertised general fund appropriation accounts. Without appropriate review by the ECS, the department does not have timely knowledge of a district's emerging financial issues and that actual spending is not consistent with and may exceed the district's advertised budget.

Kindergarten Enrollment

In accordance with N.J.A.C. 6A:32-8.3, the maximum enrollment for a kindergarten class in most districts is 25 students per teacher. Exceeding the 25 student limit requires an additional full-time staff and ECS approval. Our review found the five counties we visited relied on self-reporting by the districts, and none had received a district request for approval of a kindergarten class exceeding 25 students. All students are tracked within the NJ Standards Measurement and Resource for Teaching system maintained by the department. Compliance with this regulation could be monitored by the department through the utilization of the system. Kindergarten class sizes exceeding the established ratio could limit the ability of the district to provide students with adequate instruction and oversight.

Administrative Employment Contracts

Review and approval of administrative employment contracts for compliance with laws and regulations by the ECS is required prior to a district's hiring. Our review of a sample of district superintendent and business administrators' contracts found that some contracts were approved by the ECS after the start date of the contract or were signed by the district and the individual employee prior to the ECS's approval. In addition, we found that one of the five counties we visited did not obtain the final signed contract to ensure the approved contract was utilized. Without the ECS's review of these contracts, individuals hired could receive unallowable salary allotments, leave allowances, or benefits.

Reliance on self-reporting by the districts fails to provide timely and independent identification of matters affecting their facilities' conditions, and academic and fiscal operations when various department offices have the resources and ability to strengthen oversight.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
TRANSPORTATION BROKER SERVICES CONTRACT – UTILIZATION

Denied Encounter Claims

Procedures for monitoring the program's direct transportation expenses need to be strengthened.

The current transportation broker services contract, effective September 1, 2017, requires the actual direct transportation expenses of the program to be, at a minimum, 80 percent of capitation paid. If the 80 percent threshold is not met, the division may recover excess capitation paid. In order to monitor the expense ratio, the Department of Human Services, Division of Medical Assistance and Health Services (division) is required to audit the broker's profit and loss statements semi-annually. As part of its review, the division must be able to reconcile paid amounts from the encounter claims submitted through the state's fiscal agent to within 98 percent of paid claim amounts reported in the broker's profit and loss statements.

The New Jersey Medicaid Management Information System (NJMMIS) is utilized by the state's fiscal agent to review and validate encounter claims submitted by the broker. Our review of transportation encounter claims disclosed the division denied encounter claims totaling $5.2 million, $6.3 million, and $19.9 million in fiscal years 2015 through 2017, respectively. One system edit in NJMMIS was responsible for denying $29 million (92%) of the $31.4 million encounter claims that were denied over the three-year period. These valid claims were erroneously denied because of a field in NJMMIS which contains a date that is subsequent to the date the encounter data was received. Until these denied claims are properly accounted for, the division will not be able to reconcile encounter claims to within 98 percent of the broker's profit and loss statements as required by the contract. Without a proper reconciliation, the division will not be able to verify if the broker is meeting the 80 percent threshold.

DEPARTMENT OF LAW AND PUBLIC SAFETY
DIVISION OF LAW

Disaster Recovery Testing

The Department of Law and Public Safety, (department) should perform disaster recovery testing of the Division of Law's (division) billing and timekeeping system.

The Department of Law and Public Safety, Division of Law utilizes its billing and timekeeping system to record and process client billings to state agencies for the services it provides. Client billing/revenue averaged $62.4 million for fiscal years 2015 through 2017, and the system processed approximately 120,000 timesheets annually. The system was not tested for disaster recovery (DR) general application system controls during our audit period. We were informed that the division's billing and timekeeping system was tested in sections, however, we were not provided with any reports of DR test(s) conducted during our audit period. The division further stated a complete DR test, which would include a total fail-over of the live system to the DR site, has never been conducted because the disruption to the business operation would be significant. New Jersey Office of Information Technology Circular 14-02-NJOIT requires agencies to document their DR testing. Such testing would identify risk and vulnerabilities that could delay the billing cycle.

OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2018

	TYPES OF FINDINGS			
REPORT	**COMPLIANCE**	**CONTROLS**	**ECONOMY/ EFFICIENCY**	**NONE**
Belleville Public Schools	X	X	X	
Casino Reinvestment Development Authority	X	X	X	
Department of Banking and Insurance				
Administration	X	X	X	
Department of Community Affairs				
Section 8 Housing Program				
Financial Data Schedules				X
Department of Corrections				
Garden State Youth Correctional Facility	X	X	X	
Department of Education				
County Offices of Education		X		
Department of Human Services				
Division of Family Development				
Office of Child Support Services				
New Jersey Kids Deserve Support (NJKiDS)				
Computerized System				X
Division of Medical Assistance and Health Services				
NJ FamilyCare Eligibility Determinations	X	X	X	
Transportation Broker Services Contract – Utilization		X		
Division of Medical Assistance and Health Services				
and				
Division of Aging Services				
Managed Long-Term Services and Supports		X	X	
Department of Law and Public Safety				
Division of Law	X	X		
Department of the Treasury				
Division of Pensions and Benefits				
Health Benefits Administrator Contracts		X		
Division of Taxation				
Tax Debt Collection		X	X	
Pinelands Commission				
Fiscal Year 2017			Opinion Report	X

OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2018

	TYPES OF FINDINGS			
REPORT	**COMPLIANCE**	**CONTROLS**	**ECONOMY/ EFFICIENCY**	**NONE**
Rutgers, The State University of New Jersey				
Allocation and Transfer of Resources Across Campuses				X
State of New Jersey				
Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2017			Opinion Report	
Fund Balance Report as of June 30, 2017			Special Report	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*				X