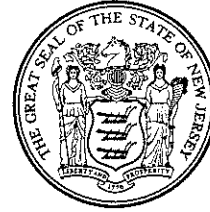


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**New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor**



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**Department of the Treasury  
Office of Management and Budget  
Selected Programs**

July 1, 2009 to June 30, 2011

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**Stephen M. Eells  
State Auditor**

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# New Jersey State Legislature

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The Honorable Chris Christie  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Sheila Y. Oliver  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of the Treasury, Office of Management and Budget, Selected Programs for the period of July 1, 2009 to June 30, 2011. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells  
State Auditor  
July 28, 2011

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## *Scope*

We have completed an audit of the Department of the Treasury, Office of Management and Budget, Selected Programs for the period July 1, 2009 to June 30, 2011. Our audit included financial activities accounted for in the state's General Fund. Annual appropriation expenditures of the agency during the audit period were \$18.7 million. The Office of Management and Budget evaluates budget requests from state departments and formulates the annual budget submitted by the Governor to the Legislature. The office also reviews all financial transactions for propriety, prepares official monthly and annual fiscal reports, and assures that state employees are paid accurately and on a timely basis.

## *Objectives*

The objectives of our audit were to determine whether financial transactions were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. We also analyzed the cost of printing and mailing payroll and non-payroll checks and determined if any opportunity for cost savings existed.

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

## *Methodology*

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

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

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

## *Conclusions*

We found that the financial transactions included in our testing were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. We also noted that the state could potentially save \$500,000 if payroll checks and check stubs were eliminated and instead were processed electronically. An additional \$600,000 in savings could be achieved if similar procedures were extended to certain non-payroll checks.

## Opportunity for Cost Savings

### **Going “green” could save the state \$1.1 million annually.**

The Department of the Treasury annually processes 7.6 million checks and remittance advices for state payroll, tax refunds and rebates, and vendor payments. A significant number of non-payroll payments in our analysis were for monthly pension benefits. The total cost of printing and postage for all payments during calendar year 2010 was approximately \$3.7 million. The following facts were identified.

- The Office of Management and Budget (OMB) processes the regular payroll for 80,000 employees on a biweekly basis. Employees have the option of receiving a check or having their pay electronically transferred to their bank accounts (direct deposit). Those who receive direct deposit may also elect to receive their pay stub information through the internet (“pay stub on the web”). Approximately 31 percent of state employees receiving direct deposit participate in this program.
- A supplemental payroll is processed on the alternate week for such pay types as overtime, retroactive adjustments, bonuses, retirement payments for unused sick and vacation time, and any other one-time payments. Direct deposit is not available for supplemental payroll, therefore between 10,000 and 30,000 checks are printed biweekly. The quantity of these checks could be significantly reduced if all overtime payments were included with the regular pay. Many employees already receive their overtime pay in their regular pay.
- During calendar year 2010, 1.8 million regular payroll checks and stubs, and supplemental overtime checks were printed at a cost of \$474,000. This amount does not consider the additional cost of sorting, mailing, and physical distribution by agencies.
- The Department of the Treasury processed 5.5 million non-payroll checks during calendar year 2010. Included in this amount were 555,000 payments to vendors and 531,000 payments to pensioners at a cost of \$330,000 and \$316,000, respectively. The costs to process pension checks are paid by the Division of Pensions and Benefits and are reimbursed by the pension funds.

According to a national survey, other states have mandated electronic payment of payroll, and at least one state has required web-based notification for all employees. These states have experienced a nearly 100 percent participation rate in their programs. Similarly, the Social Security Administration has mandated electronic payment for new applicants for retirement benefits as of May 1, 2011 and will require all benefit payments to be electronic by March 1, 2013.

## **Recommendation**

We recommend the Department of the Treasury mandate that all regular payroll be transmitted electronically and all notifications be done through “pay stub on the web”. We also recommend that all overtime pay be included with the regular pay thereby eliminating the need to process most supplemental paychecks. We further recommend the Department of the Treasury determine the feasibility of converting non-payroll checks to vendors and pension recipients to electronic payment with web-based notifications.

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## State of New Jersey

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**CHARLENE M. HOLZBAUR**  
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July 26, 2011

Mr. Stephen M. Eells  
State Auditor  
Office of Legislative Services  
Office of the State Auditor  
PO Box 067  
Trenton, New Jersey 08625-0067

RE: Departmental Audit Response - Department of the Treasury  
Office of Management and Budget  
Selected Programs

Dear Mr. Eells:

The Office of Management and Budget (OMB) appreciates the efforts of your staff in the audit of Selected Programs. In response to your recommendation, while we agree that the electronic transmission of all regular payroll and pay stub notifications could provide a cost savings to the State, legislation would be required to mandate direct deposit as the current statute requires the employee to make the election. On November 22, 2010, a bill (A3503) was introduced that mandated direct deposit and electronic pay stub notifications.

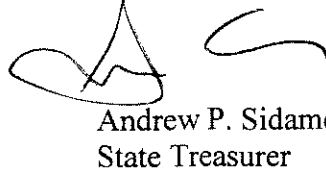
Certain collective negotiations agreements provide that overtime payments be paid on a supplemental paycheck. For those agreements that expired on June 30, 2011, and which contained such a provision, OMB has made the recommendation to the Office of Employee Relations that it propose that such overtime payments be included in the regular payroll.

OMB has periodically sent notifications to vendors to encourage the use of electronic payments and to avail themselves to the payment information on line through the Vendor Payment Inquiry internet application. The Division of Purchase and Property (DPP) is moving forward to require electronic payments as part of the contract terms on new contract awards. In addition, OMB and DPP are working on converting the payee identification number on existing purchase orders to reference the electronic payment identification number for the vendor. This will assist departments in selecting the electronic payment identification number when processing a vendor payment.

As of the most current retiree payroll, the Division of Pension and Benefits (DPB) issued benefit payments to 280,878 pension recipients of which 234,646 or 83.5% were provided via electronic funds transfer (EFT). In an effort to increase the percentage of EFT benefit payment recipients DPB amended its procedures and now requires all members who retire on or after July 1, 2011 to

utilize electronic funds transfer (EFT) to receive their monthly retirement benefit. In addition, DPB will continue to explore all other options to move the percentage of EFT recipients closer to 100%.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Sidamon-Eristoff', with a long horizontal flourish extending to the right.

Andrew P. Sidamon-Eristoff  
State Treasurer