



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

**State of New Jersey
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**

For Fiscal Year Ended June 30, 2010

**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

We have audited the financial statements of the State of New Jersey as of and for the year ended June 30, 2010 and have issued our report thereon dated December 1, 2010. In connection with that audit, we tested internal controls and compliance to laws and regulations. The results of our tests are contained herein in our 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*.

The audit was performed and this report is submitted 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.

Stephen M. Eells
State Auditor
January 10, 2011

**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***

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REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of New Jersey as of and for the year ended June 30, 2010, which collectively comprise the state's basic financial statements and have issued our report thereon dated December 1, 2010. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component units, the pensions and other employee benefits trust funds, and the Port Authority of New York and New Jersey, as described in our report on the State of New Jersey's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the pensions and other employee benefits trust funds and two discretely presented

component units, the New Jersey Sports and Exposition Authority and the Casino Reinvestment Development Fund, audited by other auditors were not performed in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the State of New Jersey's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of New Jersey's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of New Jersey's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses, that we consider to be significant deficiencies in internal control over financial reporting (see finding number 2010-1). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of New Jersey's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State of New Jersey's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the State of New Jersey's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the State of New Jersey, the legislature, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Stephen M. Eells". The signature is fluid and cursive, with a large initial "S" and "M".

Stephen M. Eells
State Auditor
December 1, 2010

State of New Jersey
Schedule of Findings and Responses

Finding: 2010-1

Financial Statement Reporting

The Department of the Treasury's Office of Management and Budget - Financial Reporting (OMBFR) is responsible for preparing the financial statements and the notes to the financial statements for inclusion in the Comprehensive Annual Financial Report (CAFR). The majority of the fund financial statements are based on transactions processed through the New Jersey Comprehensive Financial System (NJCFIS) and adjustments prepared by the OMBFR accountants through the use of journal vouchers. The NJCFIS data is uploaded into the Clarity System application which creates the final financial statements. Governmental Accounting Standards Board Statement No. 34 data, component unit statements, and off-line funds audited by independent certified public accounting firms are entered directly through journal entries into the Clarity System application by the OMBFR for inclusion in the CAFR. The OMBFR may also make adjustments to financial statements through entries on Clarity. The management's discussion and analysis, notes to the financial statements, statistical section, and certain other information are included in the CAFR through Clarity.

An internal control over financial reporting weakness was noted during our current audit. Audit adjustments totaling \$128 million were proposed to correct tax revenue accruals in the General Fund and Property Tax Relief Fund (PTRF) due to calculation errors by Treasury's Office of Revenue and Economic Analysis (OREA). One adjustment for \$112 million, which was not made, would have corrected PTRF tax revenues that were accrued in fiscal year 2009 but which should have been recorded in fiscal year 2010.

In our prior report, we recommended a more detailed review of OREA's tax accrual calculations be completed prior to submission to OMBFR. No action was taken for fiscal year 2010. However, we were advised by management that organizational changes have been made to address this weakness.

Recommendation

We repeat our previous recommendation that a more detailed independent review of OREA's tax accrual calculations be completed prior to the journal entries being recorded.



State of New Jersey

OFFICE OF THE STATE TREASURER
P.O. BOX 002
TRENTON, NJ 08625-002

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

January 6, 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 Responses – Department of the Treasury
Office of Management and Budget
Comprehensive Annual Financial Report

Dear Mr. Eells:

The Office of Management and Budget (OMB) appreciates the efforts of your staff in their audit of the Comprehensive Annual Financial Report. We are working to resolve the finding noted in 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*, and we would like to thank you for giving us an opportunity to comment on the finding. The response to the audit team's recommendation are as follows:

Financial Statement Reporting

The following internal control over financial reporting weakness was noted during our current audit.

Finding

The Department of the Treasury's Office of Management and Budget – Financial Reporting (OMBFR) is responsible for preparing the financial statements and the notes to the financial statements for inclusion in the Comprehensive Annual Financial Report (CAFR). The majority of the fund financial statements are based on transactions processed through the New Jersey Comprehensive Financial System (NJCFs) and adjustments prepared by the OMBFR accountants through the use of journal vouchers. The NJCFs data is uploaded into the Clarity System application which creates the final financial statements. Governmental Accounting Standards Board Statement No. 34 data, component unit statements, and off-line funds audited by independent certified public accounting firms are entered directly through journal entries into

Mr. Stephen M. Eells
January 6, 2011
Page 2

the Clarity System application by the OMBFR for inclusion in the CAFR. The OMBFR may also make adjustments to financial statements through entries in Clarity. The management's discussion and analysis, notes to the financial statements, statistical section, and certain other information are included in the CAFR through Clarity.

An internal control over financial reporting weakness was noted during our current audit. Audit adjustments totaling \$128 million were proposed to correct tax revenue accruals in the General Fund and Property Tax Relief Fund (PTRF) due to calculation errors by Treasury's Office of Revenue and Economic Analysis (OREA). One adjustment for \$112 million, which was not made, would have corrected PTRF tax revenues that were accrued in Fiscal Year 2009 but should have been recorded in Fiscal Year 2010. In our prior report, we recommended a more detailed review of OREA's tax accrual calculations be completed prior to submission to OMBFR. No action was taken for Fiscal Year 2010. However, we were advised by management that organizational changes have been made to address this weakness.

Response

OREA will review the current process and make the necessary changes to ensure that year-end tax accruals are subject to a detail review prior to submission to OMBFR. OREA has reorganized by adding senior level management that will be reviewing the year-end tax accrual for completeness and accuracy.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrew P. Sidamon-Eristoff". The signature is stylized with a large initial "A" and a long horizontal stroke.

Andrew P. Sidamon-Eristoff
State Treasurer

nm

c: Charlene M. Holzbaaur
Kathy A. Steepy