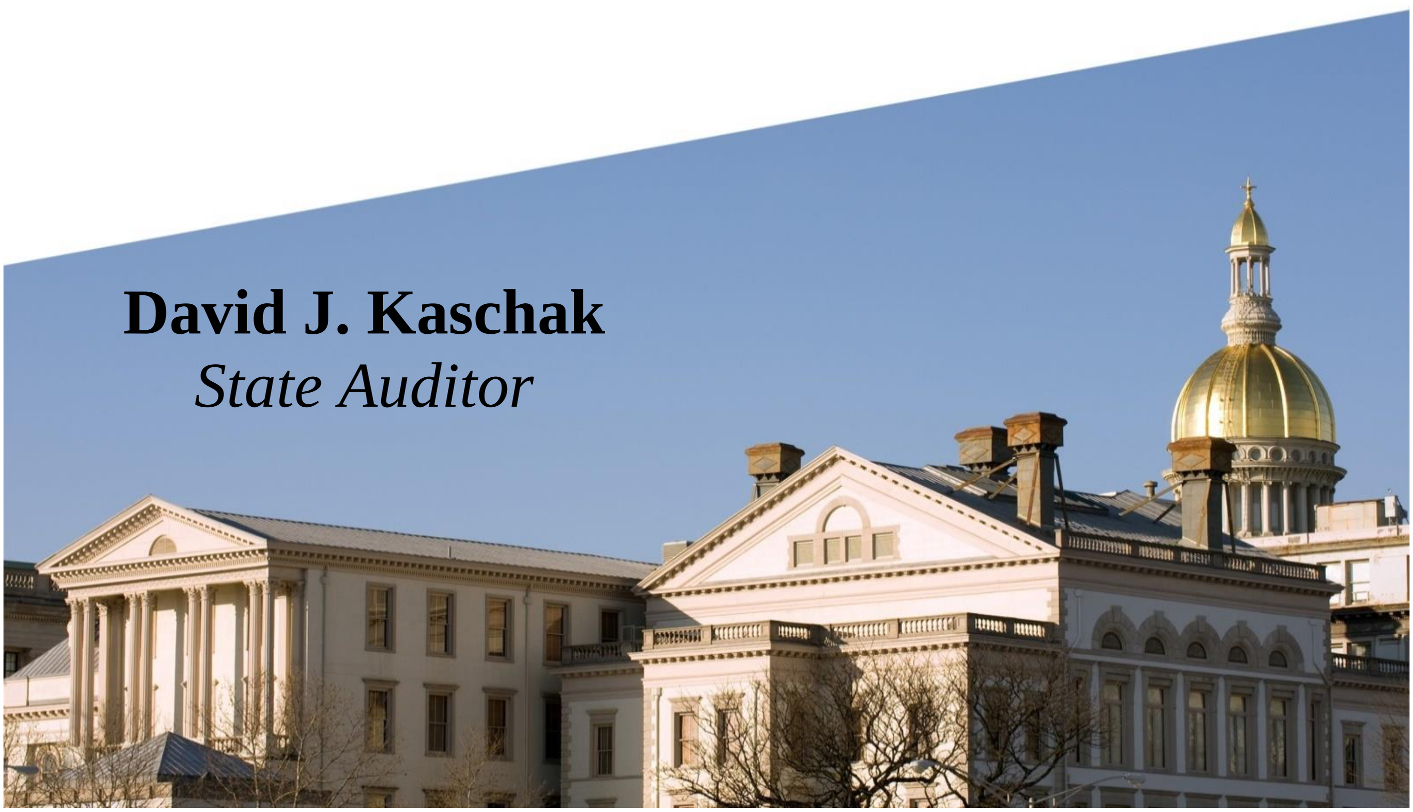
New Jersey Legislature

Office of LEGISLATIVE SERVICES

OFFICE OF THE STATE AUDITOR

2021 Annual Report

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



David J. Kaschak

State Auditor

Message from the State Auditor

The Honorable Members of the Senate and General Assembly

Ms. Maureen McMahon
Acting 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 2021. In conformance with our responsibilities to perform financial, performance, and compliance audits, all state agencies are audited periodically using a risk-based approach. During 2021, we issued 17 reports and identified $254.8 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 government accountability to the Legislature through an effective and constructive audit process.

David J. Kaschak

David J. Kaschak
State Auditor
August 2, 2022

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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 23, 2021, David J. Kaschak, 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. In addition, all audit reports issued by the Office of the State Auditor are public documents and are available on the New Jersey Legislature's website at https://www.njleg.state.nj.us/audit-reports.

The Pamphlet 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 2021, we identified $254.8 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, 2020 disclosed that 76.7 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 2019 recommendations rose to 76.4 percent.

The office performs the annual financial audit of the state's Annual Comprehensive Financial Report. The Annual Comprehensive Financial Report engagement includes the audit of 210 funds and component units having a total asset value of $290.9 billion at June 30, 2021.

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 2020, the National State Auditors Association conducted a review of our system of quality control that 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
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2021
(Expressed in Thousands)

REPORT		COST SAVINGS, IMPROPER PAYMENTS, AND/OR REVENUE ENHANCEMENTS
Chief Executive's Office	$	10.9
Department of Human Services		
Division of Developmental Disabilities		
Woodbine Developmental Center		12,352.1
Division of Medical Assistance and Health Services		
New Jersey FamilyCare Medicaid Managed Care Rate Setting and Managed Care Organization Administrative Costs *		241,899.1
Department of Law and Public Safety		
Juvenile Justice Commission		
Juvenile Medium Security Center		550.0
Total Cost Savings, Improper Payments, and Revenue Enhancements	$	254,812.1

**Savings calculated over a four-year period.*

National State Auditors Association
An Affiliate of NASACT
NSAA

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Washington Office
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PEER REVIEW REPORT

June 12, 2020

The Honorable Stephen M. Eells
New Jersey State Auditor
125 South Warren Street, P.O. Box 067
Trenton, NJ. 08625-0067

We have reviewed the system of quality control of the New Jersey Office of the State Auditor (the office) in effect for the period April 1, 2019 through March 31, 2020. 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 April 1, 2019 through March 31, 2020 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*.**

Joseph Schussler, CPA, CGFM
Concurring Reviewer
External Peer Review Team
National State Auditors Association

Michael J. Delaney, CPA, CFE
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 Annual Comprehensive Financial Report, 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 Annual Comprehensive Financial Report opinion audit. We have also issued a special report related to fund balances as of June 30, 2020 in accordance with statutory requirements. Five other financial audits were issued in calendar year 2021.

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 seven performance audits in calendar year 2021. These audits encompassed $49.6 billion and $458.9 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 2021, we reported on the Department of the Treasury, Division of Purchase and Property, New Jersey State of The Art Requisition Technology (NJSTART) Information Technology Application and the Department of the Treasury, Division of Taxation, Taxpayer Unremitted Liability Inventory Plotting System (TULIPS) and the Generic Tax System (GENTS).

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 the 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.

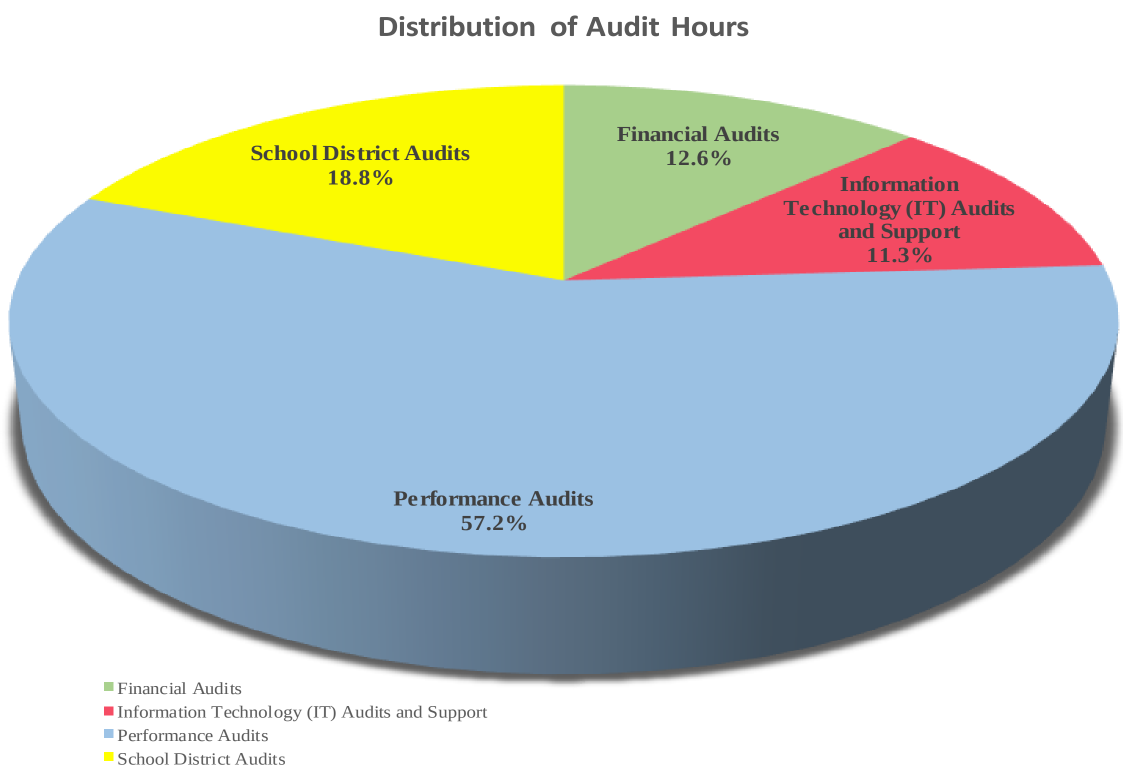
Legislative Requests

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.

AUDIT REPORTS

DISTRIBUTION OF AUDIT HOURS

The distribution of audit hours used in performing audits during calendar year 2021 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 within 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 https://www.njleg.state.nj.us/audit-reports.

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

Items Reported Under Separate Cover

Our audits sometimes disclose reportable conditions deemed confidential in nature. These conditions are communicated in a confidential management letter provided to agency management only. The findings and recommendations contained in the management letters are subject to the Office of the State Auditor's compliance process as required by N.J.S.A. 52:24-4.

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, 2021, there were 48 staff members, 60 percent of the 81 filled professional positions, who possessed 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 for CPAs to its staff, as well as to other state employees requiring the course. Staff also provided a governmental auditing presentation to university students 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, 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, 2021

STATE AUDITOR

David J. Kaschak, CPA, CGFM
Robyn Boyer, Administrative Assistant

ASSISTANT STATE AUDITOR

Brian M. Klingele, MS, CIA, CGAP

ASSISTANT STATE AUDITOR

Thomas Troutman, CPA, CIA, CGFM

Jill Bodnar, Secretary

AUDIT MANAGERS

Daniel Altobelli, CPA, CISA, CEH
Robert F. Gatti, CPA
Kenneth Kramli, CPA
Anna Lorenc
Linda Maher, CGFM
Kristen Menegus, CGAP
Stacey O'Brien, MBA, CPA
Robert Rizzo, CPA
Christopher D. Soleau, CGAP

PRINCIPAL AUDITORS

Derek Bachmann
Kenyona Booker, CGAP
Andrew D. Cipriano, CPA, CFE
Stephanie A. Collins, MBA
John J. Coyle, CPA
George Derbaly, MS, CPA
Jennifer Dougherty, CISA
Luz Dow, CPA
Sean F. Duffy
Lorien Flannery, MAccy
Eric Fonseca
Rene Gervasoni
Kathleen Gorman
David M. Illuminate, CFE
Vishal P. Jhaveri, MBA, CPA
Kiersten M. Kokotajlo, CFE, CICA
Joshua Mastro, CFE
Richard J. McHale
Smaragda Ng, MBA
John R. Pullen, CICA
Michelle Quinones, CICA
Stephanie Rybak, MAccy
Nicole Sansone, CFE, CGAP
Brian K. Sherfesee
Hiral Singh, MBA, CPA
Jesskim So
Michael A. Tantum, MBA
Justin Toldt, MS, CPA
Kurt T. Zadworney, CICA

AUDIT STAFF

Jennifer Alemoh
Paulina Badway, MAccy
Eric Carter
Jaclyn Cena, CPA
Christine Chang, CPA
Diana Choe
Morgan Cole, CFE
Devan Davies
Michael Dintrone
Meghan Ellis
Helene Evich, CPA
Tanja Fessler
DeNeasha Gregory
Iryna Gryniv, MAccy
Rachel A. Haines
Kenneth P. Henderson, CPA
Shane Hoffman
Kevin Holt, CGFM
Amanda Ireland
David Jonas, CPA, CGFM
Michael Kiyaga, CPA
Kirill Kornoukh, CPA
Douglass W. MacArthur
Jesenia Maldonado
Matthew T. McCue
Daniel Mostrangeli, MAccy
John O'Meara, CPA, CFE
Joseph Pica
Dean Powers
Kelsey Preston
Abeeda Razack, MAccy
Michael Salberta
Edward Shields
Arashdip Singh
David Sohn, CFE
Meghan Stillwell
Shrushti Trivedi, MAccy, CICA
John Urciuoli
Lesia Vasyliv, MBA

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
MAccy – Master of Accountancy
MBA – Master of Business Administration
MS – Master of Science

ACCOMPLISHMENTS AND RESULTS

SUMMARY

This section highlights four audits issued during the past year that contained cost savings, improper payments, and revenue enhancements totaling $254.8 million. Information on these reports is presented on pages 14 through 31. Highlights of eight reports containing other significant findings and observations are presented on pages 32 through 68. 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 2021 are identified on a schedule on page 69 and are available for review on our website.

CHIEF EXECUTIVE'S OFFICE

Wireless Devices

Internal controls over wireless devices need improvement to ensure compliance with Treasury requirements.

New Jersey Department of the Treasury Circular No. 15-04-OMB/OIT (circular) requires all state departments and agencies to establish an internal policy and guidelines for the use of wireless devices within their department. All staff should be aware of this policy, and a copy of the formal policy must be maintained on file. The circular also requires each department to review quarterly Office of Information Technology (OIT) Zero Usage Reports, which list wireless devices having no activity. The circular states that a device must be terminated if no longer necessary, and OIT is to be notified when a device should be deactivated.

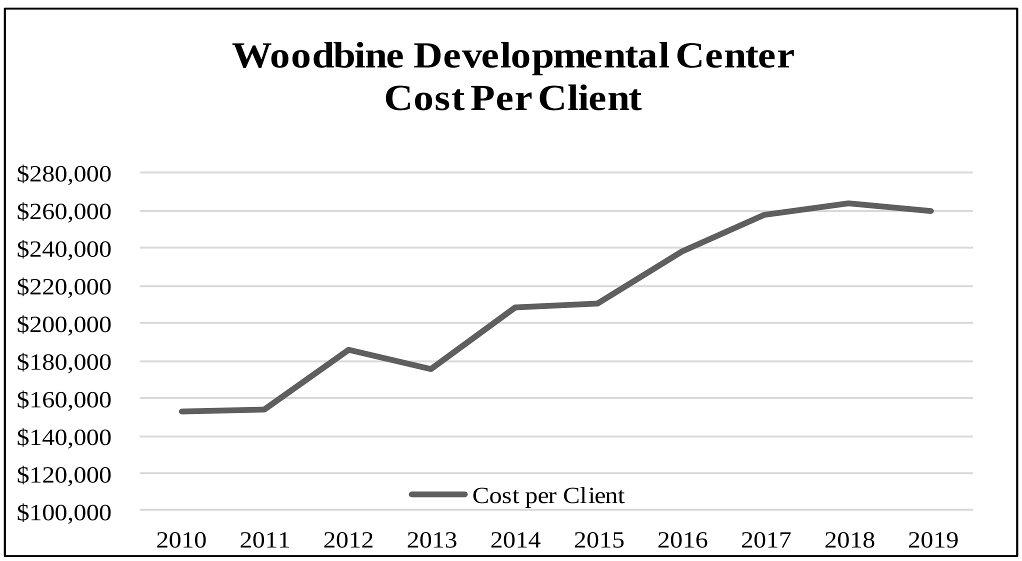
During our review, we noted the Chief Executive's Office (office) did not have a formal policy governing wireless devices. Furthermore, wireless device assignments were inconsistently tracked on an electronic spreadsheet. We reviewed device assignments for six judgmentally selected non-consecutive months and compared them to OIT billing records, totaling $59,797. The office paid for service for 235 wireless devices at an average cost of $42.41 per month per device during this period. We noted a range of between 27 and 43 wireless devices that were unassigned in the months tested, with expenditures totaling $10,928. This includes 21 wireless devices that were not on any of the assignment lists.

In addition, we reviewed and analyzed Zero Usage Reports from July 2016 through December 2017 and noted 22 wireless devices appeared on the Zero Usage Report for at least 12 consecutive months.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
WOODBINE DEVELOPMENTAL CENTER

Background

In accordance with the 1999 United States Supreme Court Olmstead decision, states must provide community living options and other supports to individuals with disabilities who do not require institutionalized care. New Jersey closed North Jersey Developmental Center as of July 1, 2014 and Woodbridge Developmental Center as of January 9, 2015. Woodbine Developmental Center (center or WDC) is one of New Jersey's five remaining developmental centers. Over a ten-year period (from fiscal years 2010 through 2019) the average daily population of the center decreased 47 percent, from 480 clients to 256 clients, while the cost per client increased 70 percent, from $152,600 to $259,400. As of fiscal year 2019, the center had the second highest cost per client of the five developmental centers. The following charts illustrate the center's rising cost per client and how it compares to the state's other developmental centers.



DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
WOODBINE DEVELOPMENTAL CENTER (continued)

Developmental Center	Fiscal Year 2019 Avg. Daily Population	Fiscal Year 2019 Cost per Client
Vineland	194	$ 263,045
Woodbine	256	$ 259,407
Greenbrook Regional Center	93	$ 237,797
New Lisbon	305	$ 229,903
Hunterdon	450	$ 220,672

Declining Client Population

The number of cottages utilized to house clients could be reduced, and employee schedules and assignments should be prepared at the center's department level to achieve operational and fiscal efficiencies with a potential annual cost savings of $7.3 million.

The center utilizes 14 cottages to house clients. Each cottage has its own staff, comprised of direct care, supervisors, housekeeping, and food service employees. The center's client population decreased from 479 to 247 (48 percent) from September 2008 to September 2019 with no corresponding reduction in the number of cottages used by the center. In comparison to all five of the state's developmental centers, as of September 2019, WDC ranked the highest in full-time staff to clients, the second highest in full-time direct care positions to clients, and the highest in cottage supervisors to clients.

	Woodbine	Greenbrook	Hunterdon	New Lisbon	Vineland
Average Daily Population - FY 2020 (Revised)	241	85	439	288	187
Full-Time Staff	985	343	1220	962	677
Ratio of Full-Time Staff to Clients	4.09	4.04	2.78	3.34	3.62
Direct Care Staff - Cottage Positions	334	124	474	365	250
Ratio of Direct Care Staff to Clients	1.39	1.46	1.08	1.27	1.34
Cottage-Related Supervisors	104	20	109	105	62
Ratio of Cottage-Related Supervisors to Clients	0.43	0.24	0.25	0.36	0.33

We found the center's objectives could continue to be achieved with fewer cottages and an overall reduction in regular payroll and overtime costs. Additionally, the center does not maximize the use of employees meeting the definition of direct care staff by scheduling assignments to achieve operational and fiscal efficiencies.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
WOODBINE DEVELOPMENTAL CENTER (continued)

Client Placement

The center uses a committee to place clients in cottages. As of September 2019, client capacity was set at 430, in varying levels among the 14 cottages, and vacancies totaled 183. We found the center does not maximize the use of direct care employees when placing clients. The Resident Living Department utilizes a spreadsheet to determine the minimum number of direct care staff needed for the clients placed in each of the fourteen cottages. The spreadsheet consistently designates a staff-to-client ratio of 1:9 on the first shift and 1:6 on the second and third shifts. These ratios are used to assign staff within a cottage (for example, one direct care employee per a group of six clients). Based on the needs of the clients in each cottage, additional staff may be required. Based on the current staffing level and occupancy, we performed the following analysis to determine if cost savings could be achieved by consolidating cottages while still maintaining staff-to-client ratios.

- We obtained explanations on the assignments of the minimum number of direct care staff assigned to each cottage and calculated the additional capacity with current staff for each considering only the staff assigned to a group. (For example, we did not include direct care staff assigned to assist in the restroom.)

- A member of the Placement Committee provided us with an observation of which cottages are similar, based on client abilities and functionality. For our analysis we grouped the cottages based on this information.

- We also evaluated various quantifiable assessments of the clients, including intellectual, behavioral, ambulatory status, and others, as maintained in the center's client database and determined cottages include clients with varying abilities, which was also confirmed by the center's upper management. This should allow for alternate placement of clients to consolidate cottages.

- We excluded the only female cottage and the cottage with clients with the most severe conditions from our analysis.

Based on our analysis, we determined the center could potentially close at least three cottages. All 38 clients residing in the three cottages could be transferred to similar structured cottages without increasing the staff requirements in the new cottages. Salaries and benefits totaled $5.8 million for all direct care title, supervisor, residential service worker, and food service positions in these three cottages and could result in cost savings to the center if the number of positions are reduced. In addition, we estimate a reduction in overtime of $650,000 if the center utilizes three fewer cottages

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
WOODBINE DEVELOPMENTAL CENTER (continued)

and maximizes the use of staff while still maintaining its ratios. Further consolidation of cottages could also be achieved based on remaining vacancies, but without a full reduction of the staff assigned to the potentially vacated cottages since the direct care staff would still be required to maintain staff-to-client ratios. We estimated the center could close up to two more cottages, each at a minimum annual cost savings of $898,000 in salaries and benefits, if these non-direct care titles are reduced.

Staff Utilization

The facility must provide sufficient direct care staff to manage and supervise clients in accordance with their individual program plans. The Code of Federal Regulations – Title 42: Public Health, 483.430(d)(3), defines direct care staff as the present on-duty staff calculated over all shifts in a 24-hour period for each defined residential living unit. Direct care staff must be provided by the facility in minimum ratios, which vary based on the mental, behavioral, or physical disabilities of each defined residential living unit. Conservatively, we utilized the lowest staff-to-client ratio per federal regulation of 1:3.2, which is for the most severe and profound mental, behavioral, or physical disabilities, to determine compliance.

As of September 2019, we found each cottage, as well as the center overall, exceeded the minimum required direct care staff per federal regulations. In total, we calculated 78 direct care staff are required daily over a 24-hour period per the federal regulation; however, the minimum direct care staffing requirements established by the center for the 14 cottages is 186 employees per day.

The federal definition of "direct care staff" are those personnel who are assigned to work directly with the clients providing support during activities of daily living and active treatment programs. The center only uses its Cottage Training Technicians (CTT), Senior Cottage Training Technicians (SCTT) and Human Services Assistants (HSA) to meet direct care staffing needs in the cottages instead of incorporating other titles involved in providing direct care. The center's titles with job specifications that fit the federal description of a direct care employee include not only the 334 CTTs, SCTTs, and HSAs, but also the 124 nurses and 48 Therapy Program Assistants. Additionally, we noted the use of CTTs, SCTTs, and HSAs for other functions outside of the cottages. We determined, as outlined below, efficiencies that could be achieved if the center fully utilizes all titles meeting the description of a direct care employee and if the Resident Living, Vocational Services, and Nursing Departments collaborate to develop staff assignments and schedules to maximize use of employee resources during shifts.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
WOODBINE DEVELOPMENTAL CENTER (continued)

Programming

The Vocational Services department provides programming (activities and jobs) to clients at locations on the center's campus, primarily outside of the cottages. A client can participate in programming between the hours of 8:30 a.m. and 3:00 p.m. up to a maximum of two hours each morning and two hours each afternoon on weekdays. We analyzed client programming schedules for April 2019 and identified the following:

- The majority of clients in 12 of the 14 cottages participate in programming. The same two cottages excluded from our earlier analysis for potential consolidation also have limited participation in programming. We noted 182 of the 206 clients (88 percent) in these 12 cottages were scheduled for programming, and 144 of these clients participated in the maximum four-hour schedule allowed.

- Fifty-seven of the 144 clients did not return to their cottages between morning and afternoon sessions and instead were scheduled for lunch and structured leisure in the programming area, which equates to the client being outside of the cottage for up to six hours per day, five days a week.

- One cottage has 100 percent participation resulting in no clients present in the cottage during programming hours. Two cottages have 99 percent participation, with a combined three clients who each do not participate in a total of two hours per week. Overall, the clients enrolled from the 12 cottages, participated in 87 percent of the four hours offered per day.

These client absences from the cottage leave direct care employees assigned to cottages on the second shift (7:00 a.m. to 3:30 p.m.) without a primary function for the majority of the shift. We were informed direct care staff perform light housekeeping, review clients' personal possessions, and ensure drawers are stocked while clients are out of the cottages; however, these functions do not appear time consuming.

The Vocational Services department had 84 full-time employees in 2019, who were scheduled to work either 7:00 a.m. to 3:30 p.m. or 7:30 a.m. to 4:00 p.m., and attempts to fill downtime around the four-hour programming schedule by assigning employees to breakfast and lunch duty at the cottages, where cottage employees are also present. A total of 54 of the Vocational Services employees hold titles meeting the definition of direct care; 11 of which are CTT, SCTT, and HSA, the titles primarily assigned to the cottages. Direct care titles are used within the cottages under Residential Services and programming areas under Vocational Services. We noted the two departments do not collaborate to develop employee assignments and schedules that maximize the use of employee resources to manage and supervise clients where present.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
WOODBINE DEVELOPMENTAL CENTER (continued)

Nursing

Nurses meet the criteria for direct care and are assigned to cottages. The Nursing Department does not use a nurse-to-client ratio when scheduling and only ensures nurses are present in cottages for assigned duties, which includes medication distribution to clients. Management informed us downtime exists (which is also supported by an overtime shift only requiring five and a half hours instead of a regular eight hour shift with the rationale that the reduced time is sufficient to complete the assigned duties) and a reduction in cottages would require less nursing coverage. We analyzed one pay period in 2019 and determined a reduction of three cottages could result in a reduction of six full-time nursing positions at an estimated savings of $525,000 in annual salary and benefit costs. Additionally, similar to Vocational Services, the Nursing Department and Residential Living Department do not collaborate when developing schedules to determine if nurses can be utilized for cottage coverage when clients are present, thereby minimizing downtime and maximizing the use of employee resources.

Shopping Center

The center staffs a Shopping Center with four employees, holding titles of Senior Cottage Training Technician and Senior Therapy Assistant, who shop for items requested and paid for by clients through their client fiduciary accounts. Prior to the creation of the Shopping Center, individual cottages were responsible for this function. Shopping Center employees are each assigned cottages and travel together to primarily one large retailer with multiple locations, each trip being at least a 23-mile drive from the center, to fill the purchase requests. The same retailer offers online shopping, which is not utilized by the department. Purchases are made through a store credit card, which is reconciled by the Business Office. We analyzed purchasing activity for an eleven-month period between July 2018 and May 2019 and identified shopping occurred on 100 days (45 percent) of the 220 business days during that timeframe, with a range of four to fourteen days per month. Based on the shopping schedule and transaction dates, we estimate each employee potentially shopped 29 percent of the business days. Client purchases totaled $44,000, while annual salary and benefit costs for this function were approximately $309,000, as of August 2019, for this department. Based on the level of activity and potential to shop online, the number of employees utilized for this function appears excessive.

Procurement

The center did not always comply with applicable purchasing policies and regulations.

We sampled 54 payment transactions totaling $1.5 million and found the transactions were related to the center's operations. However, the Business Office did not always ensure compliance with internal policies and state procurement guidelines and regulations; payments were accurate; or funds were spent in the most efficient manner.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
WOODBINE DEVELOPMENTAL CENTER (continued)

Pursuant to N.J.S.A 52:25-23(c), records of all purchases made shall be maintained by the agency and shall include proper documentation that the purchase was competitively awarded, where required. We found records to support transactions were not always available. The Business Office attempted to obtain additional documentation from other departments; however, 31 of the 54 transactions (57 percent) totaling $1.1 million did not have complete support including quotes, bid documents, records of receipt of bids and quotes and the corresponding evaluation processes, receiving reports, records of time billed for services, documentation of materials charged, and verification of charges.

An Order Request for Business Office (requisition) should be submitted to the Business Office for approval of purchases. We found the form did not require written justification or additional support, such as low inventory records, for proposed purchases. By not requiring this type of documentation, the Business Office could process potentially unnecessary or improper expenditures. We notified the Business Office of this internal control weakness, and the requisition was updated to require justification. Internal policies and procedures should be updated to reflect the new procedure which should also require documents that support the written justification.

In accordance with WDC policies and procedures, purchases should be requested and approved prior to the order to ensure propriety and availability of funds. Our review of requisitions for the 47 applicable sampled transactions noted four requisitions requested and approved by the same employee, four requisitions missing approval by the applicable center department, and 12 transactions with no corresponding requisition, for an overall exception rate of 43 percent. Additionally, orders for 10 of the 47 transactions were placed prior to the Business Office approval, and we could not determine if another 7 transactions were procured prior to approval (confirming orders) due to no requisition and lack of available documentation.

State Contract Purchases

The center purchases through state contracts when available. Our sample included 15 transactions totaling $249,000 procured through state contract. Five of these transactions, totaling $149,000, were for time and material services where a center’s designee shall monitor and document approval of the hours worked and the work accomplished by the contractor. Payment shall not be made without such documentation. The center was unable to provide any documentation to support the hours paid for three of the five transactions totaling $67,000. For the remaining two transactions totaling $82,000, time records did not substantiate the amounts paid. One transaction was paid based on a proposal of 400 labor hours; however, support documentation totaled only 268 actual labor hours with an apparent overpayment of $12,000. Another transaction was paid based on a proposal of 208 labor hours and support documentation totaled 104 actual labor hours with an apparent overpayment of $8,000. Additionally, when a time and material services contract is used, written quotes should be obtained from a pool of state contract vendors when such a pool is available to ensure price competition. For two of the five applicable transactions totaling $46,000 (and included in the $149,000 above), the center could not document that quotes were obtained from the pool of state contract vendors. Additionally, state contract language specifies that a quote will become a "not to exceed" type with the option for the state to reduce the final amount based on the actual hours worked. The center obtained one quote and paid that amount regardless of the actual hours worked, therefore bypassing price competition and not ensuring the lowest cost to the center.

Delegated Purchasing Authority Purchases

Department of the Treasury Circular No. 16-02-DPP provides guidelines for the purchase of goods and services. The circular requires purchases be made first through one of the four primary contract methods prior to the use of delegated purchase authority (DPA). At least three quotations are required for purchases over $1,000 and up to $17,500, and three written quotes are required for purchases greater than $17,500 and less than $40,000. These thresholds are established to provide competition and to ensure the state obtains the lowest pricing. If a purchase is from a sole source vendor, a memorandum of sole source justification must be written and signed by the Agency Approval Officer, and a letter from the vendor must be placed in the DPA file indicating why it is the only vendor that can provide the supplies or services. We tested 22 DPA transactions totaling $198,500 and noted the center did not always follow the circular.

Of the 13 transactions over $1,000 and up to $17,500 where three quotes were required, our testing noted quotes were not documented for 7 transactions totaling $30,000. Additionally, 6 of the 13 payments were processed without sufficient documentation (including contracts, invoices, detail and monitoring of labor hours, a matching receiving report, and verification of item discount) to ensure propriety of amount invoiced.

For purchases from $17,500 to $40,000, an Agency Request for Proposal must be submitted to a minimum of three vendors to request written quotes. Our sample included four such transactions totaling $106,000. It is the responsibility of the agency to establish internal control procedures for the acceptance, security, review, and evaluation of quotes for competitive purchases. We requested the documented procedure and were provided with none.

The center identified four transactions totaling $24,000 as sole source; however, all four were missing a sole source justification written and signed by the Agency Approval Officer and a sole source certification from the vendor. After bringing this to management's attention, we received a response that two of those transactions were not sole source but were instead emergency purchases. In an instance of an emergency procurement, a memorandum of a particular public exigency that precluded the solicitation of quotations must be prepared and signed by the Agency Approval Office and made part of the DPA file. No such memorandum was provided to us. For the other two transactions categorized as sole source, the required documentation was not present.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
WOODBINE DEVELOPMENTAL CENTER (continued)

Other Transactions

Our sample included 10 transactions totaling $622,000 related to maintenance and improvements of buildings and grounds that were procured through contracts in conjunction with the Department of Human Services. We noted the Business Office does not routinely verify these types of transactions for accuracy. Supporting documentation was unavailable for five transactions totaling $538,000 and an additional transaction for $63,000 that was paid $17,000 in excess of the contract payment terms. A Request for Proposal for disposal services stated that payment will be based upon the volume of tons removed, transported, and disposed, based upon the scale weight tickets from the disposal site. The Business Office did not request weight tickets to verify the accuracy of payment. We obtained the weight tickets from the maintenance department and identified the $17,000 overpayment.

Laundry Services

Our review noted the Business Office processes payments to Ancora Psychiatric Hospital (Ancora) for laundry services without requesting support to verify invoices for accuracy and does not evaluate the laundry services contract for efficient use of funds.

- The center paid Ancora $302,000 in fiscal year 2018, $457,000 in fiscal year 2019, and $231,000 for July 1, 2019 through December 31, 2019. We noted that invoices increased by $.23 per pound for fiscal year 2019; however, the center could not provide a contract for fiscal years 2018 and 2019. This unsupported increase resulted in an additional cost of $162,000 in fiscal year 2019.

- Ancora weighs laundry received from the center and then invoices, less a 10 percent "wet weight adjustment". The center's laundry unit only weighs clean laundry upon return from Ancora and does not utilize this information. The center does not have documented policies and procedures related to the laundry process, nor does the Business Office coordinate with the laundry unit to ensure it weighs laundry sent out to independently confirm invoices. We obtained Ancora's record of laundry weight received from and then returned to WDC for one quarter of fiscal year 2019 and identified an average weight variance of 20 percent, which is double the 10 percent wet weight adjustment deducted from invoices, and potentially an additional $45,700 in overpayments based on the fiscal year 2019 expenditure.

- Additionally, we identified that New Lisbon Developmental Center (NLDC) utilizes a state contract for laundry rental services, which covers the rental and laundering of linens instead of purchasing linens and laundering them under a separate contract. In fiscal year 2019, WDC paid approximately $223,000 (61 percent) more in total and $1,100 (92 percent) more per client than NLDC for laundry services and linens as noted in the following chart.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
WOODBINE DEVELOPMENTAL CENTER (continued)

Fiscal Year 2019	WDC	NLDC	Variance
Laundry/Rental Service Expenditure	$ 456,914	$ 364,574	
Linen Related Expenditure	$ 131,666	$ 725	
Total	$ 588,580	$ 365,299	$223,281
Average Daily Population	256	305	
Total Cost per Client	$ 2,299	$ 1,198	$ 1,101
*Potential Cost Savings $1,101 * 256 = $281,856*			

Medicaid Revenue

The center should apply for timely approval regarding client eligibility in order to maximize Medicaid reimbursements

The Medicaid Intermediate Care Facilities for Individuals with Intellectual Disability (ICF/ID) program reimburses costs incurred by eligible consumers (clients) who reside in an ICF/ID certified cottage at the center. ICF/ID is available only for individuals in need of, and receiving, active treatment services. The fiscal year 2020 daily reimbursement rate for ICF/ID eligible clients was $1,183. We identified three WDC clients who have resided in ICF/ID certified cottages since 2000 (one client) and 2007 (two clients) without being deemed eligible for ICF/ID services for a total of 16,350 days through January 31, 2020. The center was unable to provide adequate support for developmental center placement for this length of time without a need for active treatment or denials of eligibility from Medicaid. If these three clients had qualified, additional reimbursements of $3.1 million could have been generated between July 1, 2017 and January 31, 2020. Subsequent to our requests for information, the center applied for eligibility and all three clients were approved for ICF services and reimbursement retroactive to March 1, 2020 (two clients) and August 1, 2020 (one client).

ACCOMPLISHMENTS AND RESULTS
COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENT

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
NEW JERSEY FAMILYCARE
MEDICAID MANAGED CARE RATE SETTING AND MANAGED CARE ORGANIZATION ADMINISTRATIVE COSTS

Background

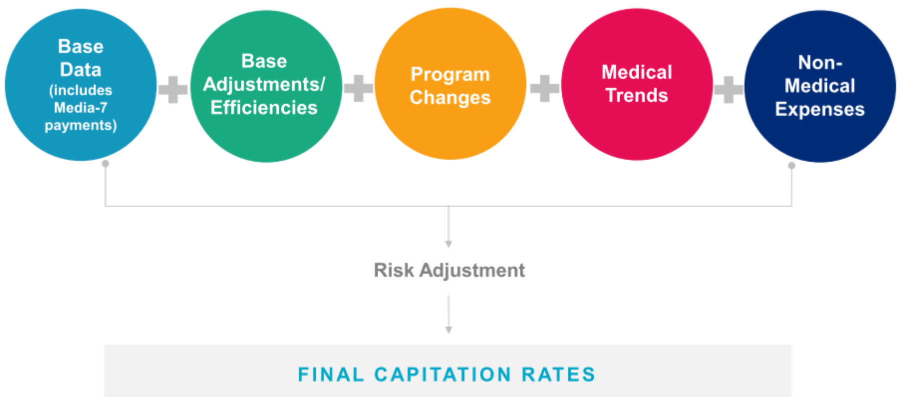
New Jersey FamilyCare (Medicaid) is a program that provides health coverage for individuals and families with low incomes and limited resources. The federal government established Medicaid under Title XIX of the Social Security Act on July 30, 1965. States operate Medicaid programs in accordance with state rules and criteria that vary within the broad framework established by the federal government. The framework requires states to provide a basic set of medical services to individuals eligible for Medicaid. Funds expended under the Medicaid program should be used appropriately and efficiently to promote the public health.

In 1995, New Jersey began transitioning Medicaid beneficiaries from a traditional fee-for-service health insurance program, in which healthcare providers bill Medicaid directly, into a managed care program. Managed care is a health care delivery system organized to manage cost, utilization, and quality. Medicaid managed care provides for the delivery of Medicaid health benefits and additional services through contracted arrangements between state Medicaid agencies and Managed Care Organizations (MCOs) that accept a capitated monthly payment (premium) for these services. Medicaid managed care capitation rates must be actuarially sound in order to qualify for federal financial participation.

Federal regulations require that capitation rates be actuarially sound, meaning the rates are projected to provide for all reasonable, appropriate, and attainable costs that are required under the terms of the contract and for the operation of the managed care plan for the time period and the population covered under the terms of the contract. Rates should include a provision for administrative expenses and an allowable margin for risk. Actuarially sound capitation rates must be: developed in accordance with federal rate development standards and generally accepted actuarial principles and practices; appropriate for the populations to be covered, and the services to be furnished under the MCO contract; certified, as meeting the requirements of payments under risk contracts, by actuaries who meet the qualification standards established by the American Academy of Actuaries and follow the practice standards established by the Actuarial Standards Board.

Federal regulations further require that, in setting actuarially sound rates, states must demonstrate compliance with the actuarial soundness requirements by documenting the rate setting methodology and the base utilization data used to set capitation rates. When developing capitation rates, the contracted actuary utilizes encounter claim data from the fiscal year that is two years prior to the rate setting period, MCO financial reports, and monthly beneficiary data collected by the MCOs and the division. The following framework provided by the contracted actuary is an overview of the New Jersey Medicaid capitation rate setting process:

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
NEW JERSEY FAMILYCARE
MEDICAID MANAGED CARE RATE SETTING AND MANAGED CARE ORGANIZATION ADMINISTRATIVE COSTS (continued)



Media-7 payments are made to MCOs outside of the standard monthly premium

Capitation rates must also be developed in such a way that MCOs would reasonably achieve a medical loss ratio (MLR) of at least 85 percent for the rate year, as calculated under 42 CFR 438.8 and the MCO contract. The MLR is the proportion of premium revenues spent on clinical services and quality improvement, as opposed to administration and profits. Under 42 CFR 438.8(e), the MLR's numerator is the sum of the MCO's incurred claims, expenditures for activities that improve health care quality, and fraud prevention activities. The denominator must equal the MCO's adjusted premium revenue minus federal, state, and local taxes and licensing and regulatory fees.

The New Jersey Medicaid minimum MLR is 85 percent of premiums paid in all forms for non-MLTSS (managed long-term services and supports) premium groups (acute care), and 90 percent of premiums paid in all forms for MLTSS premium groups. The division and the contracted actuary are responsible for ensuring MCOs are compliant with MLR requirements and routinely auditing reported data and MLR calculations to ensure that revenues, expenditures, and other amounts are appropriately identified and classified within each MCO's MLR. Although it is not federally required, New Jersey Medicaid requires remittance when an MCO fails to meet the minimum MLR standard in any given year and shall recover 100 percent of the under expenditures.

MCO Underwriting Margins

Medicaid capitation rates were actuarially sound, but resulted in $516.1 million in MCO underwriting gains.

The division and the contracted actuary established capitation rates that although actuarially sound,

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
NEW JERSEY FAMILYCARE
MEDICAID MANAGED CARE RATE SETTING AND MANAGED CARE ORGANIZATION ADMINISTRATIVE COSTS (continued)

led to $516.1 million ($403 million for acute care and $113.1 million for MLTSS) in Medicaid funds that have been retained by the MCOs as underwriting gains for fiscal years 2015 through 2018. The underwriting gains were retained by the MCOs because the MCO contract lacks terms which would limit the excess percentage of underwriting gains an MCO can retain. The state has a continuing responsibility to ensure that all federal and state funds expended under the Medicaid program are used appropriately and efficiently to promote the public health.

The Actuarial Standard of Practice No. 49, Medicaid Managed Care Capitation Rate Development and Certification, states "the actuary should include a provision for underwriting gain, which is typically expressed as a percentage of the premium rate, to provide for the cost of capital and a margin for risk or contingency." Research by the Society of Actuaries, *Medicaid Managed Care Organizations: Considerations in Calculating Margin in Rate Setting*, found:

> *"Most states' capitation rates (payments to MCOs) include an explicit provision for margin, and in recent periods these range from 0.5% to 2.5%. Most for-profit MCOs target margin higher than 2.0%; most nonprofit MCOs target margin of around 2.0%. Actual performance over the past few years has varied widely among MCOs and states, but the average margin in 2015 was 1.8% for for-profits and 1.5% for nonprofits, according to financial database results…"*

In 2018, the division's actuary completed a report measuring MCO profitability since 2009 and found the total annual profits of the MCOs had been in the $100s of millions, with historical underwriting margins ranging from negative to over 5 percent. If an MCO makes an underwriting margin in excess of the explicit provision included in the capitation rates for any given fiscal year, the capitation rates for that year cannot be recalculated to recoup any of the excess underwriting margin. Similarly, if an MCO experiences an underwriting loss, the capitation rates cannot be increased. The table on the following page displays the underwriting gain of all five MCOs, collectively, in excess of a 2 percent underwriting margin:

	FY 2015 base data		FY 2016 base data		FY 2017 base data		FY 2018 base data		
	Acute	MLTSS	Acute	MLTSS	Acute	MLTSS	Acute	MLTSS	
Premium Revenue	$6,766,587,441	$507,860,365	$7,173,398,544	$1,114,172,160	$7,495,120,545	$1,621,632,762	$7,435,341,173	$2,056,693,717	
Claims Incurred	$5,859,244,519	$410,472,848	$6,396,380,154	$936,961,410	$6,706,746,579	$1,450,589,108	$6,625,649,326	$1,807,489,729	
Care Management	n/a	n/a	n/a	$47,901,485	n/a	$62,995,062	n/a	$67,234,614	
Administrative Expenses	$572,090,324	$67,943,808	$508,581,838	$40,224,617	$560,340,829	$66,412,413	$692,024,814	$123,032,247	
Underwriting Gain (UG)	$335,252,598	$29,443,709	$268,436,552	$89,084,648	$228,033,137	$41,636,179	$117,667,033	$58,937,127	
Underwriting Margin (UM)	4.95%	5.80%	3.74%	8.00%	3.04%	2.57%	1.58%	2.87%	
UG >2% UM	$ 199,920,849	$ 19,286,502	$ 124,968,581	$ 66,801,205	$ 78,130,726	$ 9,203,524	$ -	$ 17,803,253	$ 516,114,639

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
NEW JERSEY FAMILYCARE
MEDICAID MANAGED CARE RATE SETTING AND MANAGED CARE ORGANIZATION ADMINISTRATIVE COSTS (continued)

A negotiated limitation on MCO underwriting margins would offer the state some financial protection while not deterring the efficient management of costs by the MCOs.

In an effort to identify best practices, we contacted other states and noted the State of Texas legislatively enacted Texas Government Code 533.014, which requires the Texas Health and Human Services Commission (HHSC) to adopt rules to ensure MCOs share profits earned through the Medicaid managed care program. The Texas Government Code 353.3 states that each MCO must pay an experience rebate according to a tiered rebate method described in the MCOs contract with HHSC. The HHSC MCO contract states MCOs must pay an experience rebate to the state if the percentage of the MCO’s net income before taxes is more than three percent of the total revenue for a specified 12-month period. Revenue from the experience rebates is appropriated to HHSC to fund Medicaid client services. The HHSC experience rebate is based on the tiered percentages in the table below:

Pre-tax Income as a Percent of Revenues	MCO Share	State Share
≤ 3%	100%	0%
> 3% and ≤ 5%	80%	20%
> 5% and ≤ 7%	60%	40%
> 3% and ≤ 5%	40%	60%
> 3% and ≤ 5%	20%	80%
> 12%	0%	100%

DEPARTMENT OF LAW AND PUBLIC SAFETY
JUVENILE JUSTICE COMMISSION
JUVENILE MEDIUM SECURITY CENTER

Background

The Juvenile Medium Security Center (center) provides education, training, and rehabilitation in a structured environment for juveniles committed by the courts to the Juvenile Justice Commission (JJC) who are unable to participate in a less secure setting. It has the design capacity to house 262 male residents and 52 female residents and is the JJC's most secure facility. The center consists of the Juvenile Medium Security Facility, which houses male residents, and the Juvenile Female Secure Care and Intake Facility (JFSCIF), which houses female residents. During our audit period, the average daily population at the center was 72 residents, resulting in an average annual cost per resident of $418,000.

In 2004, New Jersey implemented the nationally recognized Juvenile Detention Alternatives Initiative (JDAI). The JDAI was developed in response to national trends reflecting a substantial increase in the use of secure detention for juveniles, despite decreases in juvenile arrests. According to the JJC's New Jersey JDAI 2018 Annual Data Report, the youth detention experience negatively impacts educational and employment levels and therefore should be reserved for the most serious, chronic youthful offenders. Nationally, in established JDAI sites, the reduction in the number of youths held in detention has led to a reduction in the number committed to state custody. According to the New Jersey JDAI 2018 Annual Data Report, this has proven to be the case in New Jersey, as well. Across the 20 active JDAI sites, commitments to the JJC decreased by more than three-quarters, with 899 fewer youths committed to state custody in 2018 alone, compared to each site's pre-JDAI year. Since 2004, the center's resident population decreased from 356 to 71 as of July 2016, and further still to 48 as of July 2020.

However, according to JJC management, the population of juveniles committed to the JJC was expected to increase in 2020 because of the implementation of P.L.2015, Chapter 89, which made changes to the conditions and process of waiving juvenile cases to the adult courts. It provides that a juvenile whose case was waived would serve the juvenile's sentence in a juvenile facility rather than an adult facility until they are at least 21 years old. The commission anticipates that these juveniles will serve an average of three of those years in a secure JJC facility. The JJC management expected its secure-care resident population to increase to a total of between 200 and 250 in 2020. However, in July 2020 the average daily population at the center was 40 male and 8 female residents, while the secure-care population of the entire JJC was only 140 residents.

The JJC's long-term plan to address the decrease in resident population includes closing larger facilities and replacing them with smaller ones. The JJC has developed and approved a plan to close the JFSCIF and the New Jersey Training School for Boys and replace them with three new smaller, secure facilities. Under the current plan, each of the three new sites would accommodate up to 48 co-ed secure-care residents and would offer the same educational, rehabilitation, and vocational programs. However, except for the JFSCIF, the JJC is not currently considering closing the center, which has higher annual costs per resident than the New Jersey Training School for Boys. The center is expected to continue to serve as the JJC's most secure facility.

Officer Scheduling – Custody Posts

The center lacks effective controls to ensure that only necessary and approved custody posts are utilized

JJC policy 14ED:01.29, Development of Post Plans in Secure Facilities, establishes a procedure for the periodic determination of custody posts necessary to adequately and efficiently staff secure facilities with Correctional Police Officers (officers), which is recorded in a Custody Posts and FTE Report (FTE report). The FTE report must be reviewed and approved annually by JJC management. It is also utilized to determine the staffing levels necessary to cover the approved posts. Utilizing posts that are not approved by the JJC can increase overtime because staffing levels may not be sufficient to cover these unapproved posts.

The Custody System Application (CSA) is used by the center's custody unit to schedule and record work hours and leave time for officers for each daily shift. We found the CSA system lacks controls to prevent the center from creating or utilizing a post that is not approved by JJC management. According to the FTE report for fiscal year 2019, JJC management approved 91 permanent custody posts for the three custody shifts. We compared the CSA data for this period to the approved posts per the FTE report and noted 785 instances where custody management had utilized custody posts that did not match the approved posts on the FTE report. Furthermore, five of the posts not listed on the FTE report were utilized almost daily, amounting to unapproved costs of approximately $550,000.

In fiscal year 2019, after adjusting for trips, trainers, and recruit trainees, the morning shift averaged three more officers working than the number of approved posts. According to JJC policy 14ED:01.29, any proposal to extend a temporary or emergency post beyond 14 days must be approved by the Executive Director, with a copy going to the Chief Administrative Officer. However, we noted the posts that are not listed on the FTE report have been utilized regularly without proper approvals. JJC management was unaware that unapproved custody posts were being utilized regularly at the center until informed by us. There has been no detailed review or justification process performed, and even while the resident population has been decreasing, the number of posts on the FTE report has remained the same over the past four years.

On October 2, 2020, following discussions with the audit team, the JJC updated the FTE report. The new FTE report included the approval of one of the five posts mentioned above, which had been used without approval 350 times in 2019, as well as the elimination of a previously approved

DEPARTMENT OF LAW AND PUBLIC SAFETY
JUVENILE JUSTICE COMMISSION
JUVENILE MEDIUM SECURITY CENTER (continued)

daily post. The new FTE report, however, ultimately resulted in a net elimination of only one officer position at the center.

DEPARTMENT OF COMMUNITY AFFAIRS
DISASTER RELIEF - SUPERSTORM SANDY
SELECTED CONTRACTS

Background

On October 27, 2012, the governor signed Executive Order No. 104 declaring a State of Emergency in New Jersey related to the impact of Superstorm Sandy. It was estimated that the storm caused approximately $30 billion in damages to the state. On October 30, 2012, the President of the United States declared a major disaster for New Jersey, thereby qualifying the state for federal disaster assistance funds. Approximately $4.2 billion in federal Community Development Block Grant Disaster Recovery (CDBG-DR) funding was awarded to the state to assist in its recovery from Superstorm Sandy. Those funds are intended to address needs not satisfied by private insurance, the Federal Emergency Management Agency, the United States Small Business Administration, or other sources. Using CDBG-DR funds, the state continues to administer various programs to help homeowners, renters, businesses, and communities impacted by the storm.

The Governor's Office designated the Department of Community Affairs (department) as the lead agency for use of the CDBG-DR funds. As the lead agency, the department was tasked with formulating and implementing the CDBG-DR Action Plan. The plan describes the state's methodology for spending the CDBG-DR funds and was approved by the United States Department of Housing and Urban Development (HUD) on April 29, 2013. There are currently 39 amendments to the plan, all of which have been approved by HUD.

Contract expenditures included in our scope are presented in the following summary (in millions):

Contractor	FY 2017	FY 2018	FY 2019	FY 2020	Total
Vendor A	$ 14.23	$ 14.04	$ 13.26	$ 10.93	$ 52.46
Vendor B	8.13	5.31	4.18	2.92	20.54
Vendor C	-	0.95	8.11	4.68	13.74
Total	**$ 22.36**	**$ 20.30**	**$ 25.55**	**$ 18.53**	**$ 86.74**

Vendor A

The department entered into a contract with Vendor A on May 24, 2013 to operate and manage the Sandy Integrated Recovery Operations and Management System (SIROMS), a software program wholly owned by the state that allows quick deployment of the CDBG-DR program to assist New Jersey residents impacted by Superstorm Sandy. The software suite includes the ability to provide detailed tracking of housing grantees across all phases of the program, establish program allocations, monitor contract progress, maintain pertinent documents, and obtain approvals on contract changes. Additionally, the software interfaces with the state accounting system to ensure accurate and timely payments. A second contract was entered into with the vendor for the period November 25, 2018 through November 24, 2021.

DEPARTMENT OF COMMUNITY AFFAIRS
DISASTER RELIEF - SUPERSTORM SANDY
SELECTED CONTRACTS (continued)

Vendor B

The department entered into a contract with Vendor B on May 25, 2013 to provide project management services in order to implement CDBG-DR programs, including tasks related to program implementation and staff augmentation in accordance with the CDBG-DR Action Plan submitted to HUD. Tasks the vendor is responsible for include the implementation of the HUD-approved Action Plan, creation and implementation of project management measures for task prioritization, community outreach, oversight of housing recovery strategies, HUD interactions, and providing staff augmentation services in the Housing Recovery Centers. The contract has been extended to May 24, 2022.

Vendor C

The department entered into a contract with Vendor C on October 17, 2017 to provide project management services for the state's Reconstruction, Rehabilitation, Elevation, and Mitigation (RREM) and Low-to-Moderate Income Homeowners Rebuilding (LMI) programs. The contract spanned through October 16, 2019 and is currently in its second of three possible one-year extension periods.

The RREM program provides grant awards to the owners of storm-damaged primary residences to restore their homes, including reconstruction, rehabilitation, elevation, and/or other mitigation activities. The RREM program is intended to fill the gap between the cost of repairs and other funds the owner has received to repair the structure. The LMI program is designed to provide reconstruction, rehabilitation, and elevation assistance to homeowners with low-to-moderate income who were impacted by Superstorm Sandy. These programs provide individual grant awards up to $150,000.

Construction Management

The monitoring of construction management contract requirements needs to be enhanced.

As of August 28, 2020, 1,835 applications were assigned to Vendor C (vendor), and 895 were submitted for closeout. The contract requires the vendor to provide applicants with construction-related assistance and guidance throughout the construction process and ensure all core services comply with program policies and procedures, as well as federal and state regulations and requirements. Our review disclosed the following internal control weaknesses related to the monitoring of contract requirements.

DEPARTMENT OF COMMUNITY AFFAIRS
DISASTER RELIEF - SUPERSTORM SANDY
SELECTED CONTRACTS (continued)

Workflow Plans

The workflow plan is the detailed plan developed by the vendor that documents the individual steps required to complete the project through the performance of the final closeout. The workflow plan provides applicants with the information they need to track and report progress to the vendor. It is used to supplement the program payment process. The intent of the workflow plan is to provide a tool to ensure construction projects are completed within program guidelines and eligibility regulations. The contract requires the vendor's project managers to develop detailed workflow plans and submit them to the department for review and approval within 15 calendar days of meeting the applicant and builder. According to a vendor-prepared monthly report dated August 28, 2020, the vendor submitted 1,693 workflow plans of which 1,332 (79 percent) were submitted late. As of February 7, 2020, there were 1,496 vendor assigned applications that were either active or closed. We randomly selected 25 workflow plans and reviewed each applicant's file in SIROMS. We noted 23 of the 25 workflow plans were completed by the vendor after the 15 calendar day threshold, ranging from 19 to 139 calendar days after the initial meeting with the applicant and builder. Of the 23 exceptions, 16 were related to the initial workflow plans completed by the vendor. These exceptions ranged from 19 to 67 calendar days after the initial meeting with the applicant and builder. According to division management, if revisions were completed by the vendor the original workflow plans were deleted in SIROMS. As a result, we were unable to determine the original workflow plan completion dates for the remaining seven exceptions. All workflow plans have been completed by the vendor as of the audit report date.

Site Inspections

The contract requires the vendor to conduct site inspections every 45 days after commencement of construction and/or after the applicant submits a funds request to ensure construction progress is continual. In addition, a department-approved site inspection form should be completed as necessary. Site inspection forms include the name and signature of inspector, date of inspection, estimated percentage completed, milestones met, observations, and photographs of construction progress and provide evidence that the inspection was completed.

As of February 7, 2020, there were 1,496 vendor-assigned applications that were either active or closed. Every applicant interaction is required to be documented in SIROMS. We randomly sampled 25 active or closed applications and noted 57 of 263 site inspections documented in SIROMS (22 percent) exceeded the 45-day threshold, ranging from 1 to 179 days late. Additionally, the site inspection form was not documented for 107 of the 263 site inspections (41 percent) conducted.

DEPARTMENT OF COMMUNITY AFFAIRS
DISASTER RELIEF - SUPERSTORM SANDY
SELECTED CONTRACTS (continued)

The contract also requires the vendor to complete a department-approved Operational Plan. The vendor's Operational Plan states "the Project Manager shall update the workflow plan and maintain current status of all milestones and document deliverables over the course of the project. The updates shall be provided to, and reviewed with the applicant at each progress meeting." Workflow plans include a schedule indicating the major milestones an applicant must reach to complete their project and the sequence of activities. Division management indicated the workflow plan is not updated as work progresses because the vendor cannot compel contractors to provide updated dates on their construction progress. As a result, the vendor utilizes the 45-day site inspections to detail construction progress to the division.

As of February 7, 2020, the vendor had closed 807 applications. Workflow plan schedules for 338 of these applications were not required because the Certificate of Occupancy was pending or on file**,** or the closeout process was already started before the transfer of the application to the vendor. We analyzed the remaining 469 closed applications to determine the difference between the estimated final inspection date per the final workflow plan and the actual date the applicant passed final inspection. We noted 423 of 469 actual final inspections, ranging from 4 to 437 business days, occurred after the estimated final inspection date in the workflow plan. The results of this analysis were as follows.

Business Day Range	Count	Percent
Before Workflow Date	46	9.8%
0 - 50	78	16.6%
51 - 100	105	22.4%
101 - 150	84	17.9%
151 - 200	52	11.1%
201+	104	22.2%
Total	**469**	**100.0%**

Since the vendor is unable to update workflow plans, site inspections are used as a compensating control to monitor construction progress. Based on our testing, site inspections were not always performed every 45 days as contractually required, and site inspection forms detailing construction progress were not always documented. Following contract requirements would ensure adequate construction progress is being performed for an applicant, and potential contractor issues are resolved in a timely manner.

Final Inspections

Final inspections are performed to determine whether the applicant's scope of work has been completed in accordance with the program's construction and environmental standards. Once the

DEPARTMENT OF COMMUNITY AFFAIRS
DISASTER RELIEF - SUPERSTORM SANDY
SELECTED CONTRACTS (continued)

final inspection is completed, the applicant's file is to be reviewed by the division and its Office of Compliance and Monitoring in anticipation of file closeout. After these reviews are completed, the division is to begin the process of releasing the declaration of covenants and restrictions on the applicant's property.

The contract requires the final inspection be conducted within 15 calendar days after the applicant has submitted all required documentation to the vendor. The contract further states that once the Certificate of Occupancy (CO) is obtained, the project manager shall conduct a final inspection to ensure conformity with program requirements and achieve final closeout. According to division management, procedures as outlined in the contract are not necessarily what occurs in practice. They indicated that the vendor will perform final inspections subsequent to the 15 calendar day period after the CO has been submitted. For example, if the CO has been received from the applicant and the scope of work has not been completed, the vendor will delay performing the final inspection.

As of February 7, 2020, the vendor had closed 807 applications. We randomly sampled 50 closed applications to determine the length of time between final inspections and the receipt of the CO. We found the final inspection was not completed within 15 calendar days for 39 applications (78 percent). Five of the exceptions occurred because the final inspections were performed prior to receipt of the CO, and exceptions ranged from 42 calendar days before to 609 calendar days after the receipt of the CO. While there may be reasons for some of these delays between the receipt of the CO and the final inspections, there are no means for the division to determine if final inspections were performed timely.

The contract allows the state to assess liquidated damages of $350 per week per occurrence for failure to conduct the final inspection within 15 calendar days of an applicant submitting all required documentation to the vendor. Since final inspection procedures outlined in the contract are not necessarily what occurs in practice, it would be difficult for the division to estimate and assess liquidated damages using any two specific date data points.

Applicant Fund Requests

Fund requests include reimbursements, construction advances, construction draws, design services, and retainage to be paid to the applicant upon approval. Per the contract, the vendor is required to review and submit applicant fund requests to the department within 10 business days of receipt for approval. If the applicant's fund request contains inadequate supporting documentation, the vendor shall reject the fund request and provide the applicant a detailed explanation of the rejection within 10 business days.

DEPARTMENT OF COMMUNITY AFFAIRS
DISASTER RELIEF - SUPERSTORM SANDY
SELECTED CONTRACTS (continued)

As of August 28, 2020, the department approved 1,289 applicant fund requests submitted by the vendor totaling $24.4 million in homeowner payments. We randomly sampled 40 payments representing construction advances, construction draws, and design services between March 1, 2018 and May 20, 2020. We noted 8 of 40 payment requests (20 percent) were approved or rejected by the vendor after the 10 business day threshold required by the contract. Exceptions ranged from 13 to 74 business days. Following contract requirements would ensure applicants are reimbursed for incurred construction expenses in a timely manner.

Contractor Validation

Per the contract, the vendor is required to conduct a validation of the applicant-selected contractor(s) within five business days of notification. The validation should include documentation that the applicant's contractor has all required state registrations and licenses, as well as documentation confirming the contractor is not debarred by HUD or the State of New Jersey. Documentation should be uploaded to SIROMS within two business days of validation. Contractor Validation and Construction Advance Payment Forms (contractor validation form) serve as a method to provide approval of the contractor by the vendor and detail contractor name, address, and license number, along with the construction advance amount. The vendor is not required to validate the contractor if validation occurred prior to the application being assigned to it. In addition, the vendor is not required to monitor the status of the contractor throughout the construction process. Upon validation approval, the applicant may receive a 50 percent advance payment on their construction award amount.

We randomly selected 25 active or closed vendor applications as of February 7, 2020 to determine compliance with the validation requirements of the contract. Once sampled, it was determined that the applicant was the general contractor for six applications, which were therefore excluded from our test. We reviewed the remaining 19 applications, of which 11 did not require a contractor validation because they were validated prior to assignment to the vendor. Contractor validations were performed for 8 of the 19 applications, with some applications requiring multiple contractor validations. Based on our review, we noted the following:

- Nine of 10 validations performed by the vendor did not include supporting documentation. For example, there were no copies of current licenses or verification the contractor has not been debarred.

- There was documentation of validation checks for three contractors; however, contractor validation forms containing vendor approval were not completed.

- The license for one contractor expired approximately six months prior to the construction closeout and was not renewed. The validation occurred prior to vendor assignment.

DEPARTMENT OF COMMUNITY AFFAIRS
DISASTER RELIEF - SUPERSTORM SANDY
SELECTED CONTRACTS (continued)

Validating documentation ensures that work is being performed by only qualified and licensed professionals.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
WOODBINE DEVELOPMENTAL CENTER

Inventory

Controls over inventory should be strengthened.

A strong system of internal controls provides for proper segregation of duties between employees who are responsible for order processing, recording, and distribution functions, in addition to a physical inventory count and reconciliation process. In order for internal controls to be carried out effectively, policies and procedures should be documented and followed. Our review of the Woodbine Developmental Center's (center) operations and inventory control process for the Clothing Center and physical inventory counts of Central Supply, Housekeeping, Mailroom, and Storeroom disclosed internal control weaknesses that, if corrected, could reduce the risk of errors and irregularities going undetected.

The center maintains an in-house database system for these five inventory areas:

- The Clothing Center maintains clothing, accessories, shoes, and similar articles for clients.
- Central Supply maintains medical related supplies.
- The Storeroom maintains various household, kitchen, and sanitary supplies.
- Housekeeping maintains household and janitorial related supplies and equipment.
- The Mailroom maintains office supplies including printer cartridges.

Inventory additions, distributions, and item values are entered into the database, by inventory area, to maintain on-hand quantities and value of inventory. We obtained a download of the database as of May 24, 2019 that identified a total inventory value of $891,500 and average fiscal year additions of $1,096,200 and distributions of $1,173,800.

	Inventory Value as of May 24, 2019	Inventory Additions Annual Average Value FY 2017, 2018, and 2019 (through 5/24/19)	Inventory Distributions Annual Average Value FY 2017, 2018, and 2019 (through 5/24/19)
Clothing Center	$211,600	$87,200	$132,800
Central Supply	$134,500	$329,900	$328,500
Housekeeping	$375,200	$293,300	$292,100
Mailroom	$59,100	$41,100	$52,100
Storeroom	$111,100	$344,700	$368,300
Total	*$891,500*	*$1,096,200*	*$1,173,800*

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
WOODBINE DEVELOPMENTAL CENTER (continued)

Our review of the Clothing Center operation noted one individual performs multiple procedures, including preparing purchase requests for the Clothing Center goods, entering inventory quantities into the inventory system when received, removing items from the inventory system through requisitions, and performing annual physical inventory counts. These counts compared to items on-hand per the database system reports (pre-inventory system count) identified total absolute item variances of 19,000 (34 percent), 11,600 (28 percent), and 13,800 (31 percent) for 2017, 2018, and 2019, respectively. The center provided on-hand counts per the database dated after the physical inventory count (post-inventory system counts) for 2019 only. After comparison of the pre- and post-inventory system counts (reconciliation) for 2019, we found the database counts are primarily replaced by physical counts after the physical inventory is performed. The initial total absolute item variance of 13,800 items was reduced to 813 items after adjustments. The employee responsible for supervising the Clothing Center initiates the annual inventory count process and reconciles the count to items on-hand. This employee has the ability to add and remove items and modify the on-hand quantity in the system. The employee also has the same abilities for the Storeroom and Central Supply. Documentation to support investigation of variances between pre-inventory system count and physical inventory count and subsequent adjustments between the pre- and post-system inventory count is not maintained. We utilized total absolute item variance to quantify the sum of each item count variance whether negative or positive as a positive number to identify the extent of the variances that occur.

We subsequently requested 2018 and 2019 physical inventory counts and reconciliations for the four other inventory areas to determine if similar variances and subsequent adjustments occurred. The center was only able to provide four of eight pre-inventory system counts and physical inventory counts, which disclosed similar variances to the Clothing Center review. No post inventory counts were provided. Our review of the documentation provided disclosed total absolute item variances of 8,400 (23 percent) for Central Supply in 2019; 36,500 (28 percent) for Housekeeping in 2019; 29,700 (26 percent) for Housekeeping in 2018; and 5,100 (22 percent) for the Storeroom in 2018. The center did not perform physical counts of the Mailroom inventory in 2018 and 2019, and it could not provide documentation for a 2018 physical count for Central Supply or 2019 pre-inventory system counts for the Storeroom. Since the 2019 physical count of Housekeeping inventory was performed just prior to the inventory download provided, we were able to identify that database on-hand figures were adjusted to the physical inventory counts, similar to the Clothing Center. The physical count identified 156 Housekeeping item types with variances, and only four types showed a variance per the database post inventory.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
WOODBINE DEVELOPMENTAL CENTER (continued)

The on-hand system counts and physical counts and corresponding variances for the five areas reviewed are as follows.

Inventory Area	Year	Count		Variance between On-Hand and Physical Count					
		On-Hand	Physical Count	Net	Net Percent	Absolute	Absolute Percent	Net Value (Estimated)	Absolute Value (Estimated)
Clothing Center	2019	44,761	51,712	6,951	16%	13,831	31%	$ 6,617	$ 40,529
Clothing Center	2018	41,410	40,721	(689)	-2%	11,557	28%	$ (2,585)	$ 41,915
Clothing Center	2017	56,518	49,465	(7,053)	-12%	19,039	34%	*Value Data Not Available*	
Central Supply	2019	36,072	30,666	(5,406)	-15%	8,360	23%	$ (14,130)	$ 25,191
Central Supply	2018	*Not Completed*							
Housekeeping	2019	129,914	98,385	(31,529)	-24%	36,467	28%	$ (80,062)	$ 127,603
Housekeeping	2018	112,682	95,134	(17,548)	-16%	29,696	26%	$ (34,429)	$ 59,655
Mailroom	2019	*Not Completed*							
Mailroom	2018	*Not Completed*							
Storeroom	2019		24,105	*On-Hand Count Not Available*					
Storeroom	2018	23,535	23,987	452	2%	5,084	22%	$ 4,093	$ 23,940

We found the center does not have documented policies and procedures related to inventory control. Since the inventory database figures can easily be adjusted, the on-hand count and values are not reliable. Lack of investigation into count variance between pre- and post-inventory system counts creates a risk of misappropriation of assets.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
NEW JERSEY FAMILYCARE
MEDICAID MANAGED CARE RATE SETTING AND MANAGED CARE ORGANIZATION ADMINISTRATIVE COSTS

Pharmacy Benefit Manager

The division did not retrospectively examine the complete financial effect of the pharmacy benefit manager expense misclassification and administrative costs.

The Medicaid prescription drug programs are an optional benefit under federal Medicaid regulation, but all states currently provide coverage for outpatient prescription drugs to all categorically eligible beneficiaries and most other beneficiaries within state Medicaid programs. The Medicaid prescription drug programs include the management, development, and administration of systems and data collection necessary to operate the Medicaid Drug Rebate program, the Federal Upper Limit calculation for generic drugs, and the Drug Utilization Review program. The New Jersey Medicaid prescription drug benefit is delivered through either the fee-for-service (FFS) program or through managed care. The Managed Care Organizations (MCOs) often contract with a third-party administrator known as a pharmacy benefit manager (PBM) to provide the prescription drug benefit.

During fiscal year 2018, the division identified that three of the five MCOs were incorrectly reporting PBM administrative costs as a pharmacy medical expense and not as an administrative expense in their acute care annual financial reports for fiscal years 2015, 2016 and 2017. The division subsequently clarified the financial reporting instructions in the MCO contract and requested the MCOs resubmit their annual financial reports for the prior three fiscal years to reflect the appropriate administrative expense classification. Since the base financial data used for setting capitation rates is from the fiscal year two years prior to the rate setting period, the financial expense misclassification would have only impacted fiscal year 2018 and prior acute care capitation rates. The fiscal year 2018 capitation rates were set without knowledge of the financial expense misclassification due to the timing of the capitation rate setting process (i.e., fiscal year 2016 base financial data was used for fiscal year 2018 capitation rates).

Although it was determined that the financial expense misclassification did not have a measurable impact on the overall capitation rates, the division and it's contracted actuary identified that one of the MCO's medical loss ratio (MLR) would have been impacted. The minimum MLR for acute care is 85 percent of premiums paid**,** and the division and the contracted actuary are responsible for ensuring MCOs are compliant with MLR requirements. New Jersey Medicaid requires remittance when an MCO fails to meet the minimum MLR standard in any given year and shall recover 100 percent of the under expenditures. Neither the division nor the contracted actuary retrospectively analyzed or calculated the actual impact of the MCO's MLR. Therefore, the division did not ensure the MCO was in compliance with the MLR regulations or determine if the MCO would be required to submit an MLR remittance.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
NEW JERSEY FAMILYCARE
MEDICAID MANAGED CARE RATE SETTING AND MANAGED CARE ORGANIZATION ADMINISTRATIVE COSTS (continued)

The division and the contracted actuary also identified that the same MCO's reported PBM administrative costs decreased from fiscal year 2017 to fiscal year 2018. With fiscal year 2017 annual financial statements and reports serving as the base data for the fiscal year 2019 capitation rates, the contracted actuary made a downward adjustment to the PBM administrative costs built into the capitation rates. Neither the division nor the contracted actuary has retrospectively reviewed the MCO's reported PBM administrative costs for fiscal years 2015 and 2016 to determine if the MCO reported PBM administrative costs were considered reasonable and appropriate, and if the MCO's MLR would have been impacted.

MCO Financial Reporting

The division is not in compliance with federal regulations nor the MCO contract requiring audited financial statements and reports of the MCOs when setting capitation rates.

The division's practice of using unaudited annual MCO financial statements and reports when setting capitation rates is not in compliance with federal regulations or the MCO contract. Federal regulation 42 CFR 438.3(m) requires MCOs to submit audited annual financial reports specific to the Medicaid contract, while the MCO contract requires MCOs to submit both audited annual financial reports and statements specific to the Medicaid contract. The MCOs submit audited annual financial statements to the New Jersey Department of Banking and Insurance; however these audited financials are of the MCOs' comprehensive business entity and not explicitly on the financial reporting of Medicaid revenues and expenses.

The MCO contract also states MCOs must submit quarterly financial reports for Medicaid rate cell grouping costs. A rate cell is a set of mutually exclusive categories of beneficiaries that is defined by one or more characteristics for the purpose of determining the capitation rate which must be reviewed annually by an independent public accountant in accordance with agreed upon procedures (AUPs). The division and the contracted actuary jointly develop the AUPs which establish a means for assuring valid health care data for use in actuarial valuations. In general, AUPs are more focused than financial audits; however AUPs do not provide the comprehensive assurance of audit opinions. Per the American Institute of Certified Public Accountants, Statements on Standards for Attestation Engagements 201.31k, a required element in the independent public accountant AUP review is:

> *"A statement that the practitioner was not engaged to and did not conduct an examination of the subject matter, the objective of which would be the expression of an opinion, a disclaimer of opinion on the subject matter, and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported."*

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
NEW JERSEY FAMILYCARE
MEDICAID MANAGED CARE RATE SETTING AND MANAGED CARE ORGANIZATION ADMINISTRATIVE COSTS (continued)

While the division asserts that the reporting of the quarterly MCO financial reports are accurate based upon the independent public accountant review, audited annual financial statements and reports specific to Medicaid revenue and expenses would ensure all potential financial matters are identified and addressed accordingly.

DEPARTMENT OF LAW AND PUBLIC SAFETY
JUVENILE JUSTICE COMMISSION
JUVENILE MEDIUM SECURITY CENTER

Officer Scheduling – Compensatory Leave Time

The Juvenile Medium Security Center (center) needs to improve controls to mitigate unnecessary costs resulting from current compensatory leave time policies.

Eligible Correctional Police Officers (officers) working in excess of their designated 40-hour workweek are compensated at the rate of time and one-half for overtime hours. The union contract gives officers the choice of receiving compensatory leave time or cash payment for the overtime worked. When compensatory leave time is used, the officer's regular shift needs to be covered by another officer. When the covering officer is also working an overtime shift, an additional 50 percent in additional costs is incurred when compared to paying cash for all overtime. The additional cost could be compounded even further when the covering officer working overtime also chooses to get reimbursed in compensatory leave time.

Between July 1, 2017 and December 31, 2019, the center's officers used 31,347 hours of compensatory leave time. Of these hours, 93 percent (29,078) required paying the covering officer overtime. The additional cost associated with paying this overtime amounted to $495,000 for this period, or an average of $198,000 annually. Although some of these costs may be unavoidable, stronger controls over the use of compensatory leave time would result in savings.

A request for the use of compensatory leave time may be denied only in circumstances when it cannot be accommodated for operational reasons. The center controls the effects of compensatory leave time use on operations by establishing combined quotas for the approved leave of five officers per morning shift, four per afternoon shift, and two per night shift. However, during calendar year 2019, custody management approved more than the allowed number of leave 20 percent of the time.

Officers are limited to 100 hours in accumulated compensatory leave time at any given time. However, there is no limit to the amount of compensatory leave time that officers can earn or use in a given year. Of the 169 officers the center employed during calendar year 2019, we noted 49 who used over 100 hours of compensatory leave time, with 17 using more than 200 hours. During this time, officers worked a median of 182 shifts per year at a regular salary rate, whereas officers who used over 200 hours of compensatory leave time worked a median of 170 shifts per year at a regular salary rate.

Officer Scheduling – Working Too Many Hours per 24-Hour Period

The center lacked controls to prevent Correctional Police Officers from working more than 16 hours in a 24-hour period.

Officers work a normal work schedule of eight hours per day. Although center management could

DEPARTMENT OF LAW AND PUBLIC SAFETY
JUVENILE JUSTICE COMMISSION
JUVENILE MEDIUM SECURITY CENTER (continued)

not locate a written policy, they maintain the maximum number of hours an officer can work in a 24-hour period is 16, unless the governor declares a state of emergency. Officers must remain alert at all times to ensure the safety of the center's residents and its employees. Officers working more than 16 hours without rest may endanger the residents, themselves, and/or fellow officers. Academic studies have found that excessive overtime can negatively affect work performance and safety. Extended work hours can also indirectly impact safety by affecting employee stress levels, mental health, and morale.

The center's Custody System Application (CSA) lacks system controls to prevent scheduling an officer to work more than 16 hours in a 24-hour period. We reviewed officer work schedules for fiscal years 2017 through 2019 and found 37 occasions where officers worked at least 18 hours in a 24-hour period, including one officer with 11 such instances. On one occasion, this individual worked 35 of 40 hours over five consecutive shifts. Officers are permitted to switch shifts in the same week with a supervisor's approval. Because the switches are not recorded in the CSA, the number of instances of working more than 16 hours in a 24-hour period could be higher than what we were able to determine.

After we notified Juvenile Justice Commission management, a new control was implemented in the CSA to enforce the 16-hour policy. Starting October 10, 2020, every time a scheduling officer attempts to schedule a shift in the CSA, the system will review the 24-hour period surrounding the shift and notify the scheduling officer of any conflicts.

Inventory Controls

The center lacks controls to adequately track and maintain appropriate levels of storeroom inventory.

The center's storeroom personnel are responsible for ordering, receiving, safeguarding, and distributing resident clothing, office, household, and other supplies. Storeroom staff generate receiving reports for payment purposes and document when clothing is issued for each resident and when clothing is issued to a residential center. However, the center does not have a process to account for inventory levels when items enter and leave the storeroom. As a result, the management cannot accurately determine the quantity used, the quantity on-hand, or future needs of any item. The lack of accurate inventory records increases the risk of purchasing inefficiencies, spoilage, and misappropriation.

In addition to not having inventory records, management does not hold periodic inventory counts for any of the storeroom items. According to management, visual estimates and spot counts are used to determine the storeroom's reordering needs. On July 29, 2020, we performed an inventory count of select items and noted the following examples of overstocked items that had been

DEPARTMENT OF LAW AND PUBLIC SAFETY
JUVENILE JUSTICE COMMISSION
JUVENILE MEDIUM SECURITY CENTER (continued)

purchased between January 1, 2018 and March 5, 2020. We counted 456 thermal pants and 312 thermal shirts in size 5XL, enough to satisfy the center's current average annual needs for over 128 years based on usage during the period. Similarly, there were 381 thermal shirts and 283 thermal pants in size 4XL, enough to satisfy the center's current average annual needs for at least 30 years. We also counted 72 pairs of size 10.5 boots in stock when, on average, only 18 pairs of this size were distributed annually.

DEPARTMENT OF LAW AND PUBLIC SAFETY
NEW JERSEY RACING COMMISSION (NJRC)
SELECTED PROGRAMS

Suspensions and Unpaid Fines

Improvements are needed in the commission's enforcement of controls regarding suspensions and uncollected debt.

New Jersey Administrative Code 13:71-1.20 requires all fines imposed by the commission to be paid within 48 hours after imposition. In addition, the commission's internal procedure requires that if the licensee does not pay the imposed fine, they would be suspended, placed on the security guide (temporarily flagged in the NJRC system), and not allowed to participate or be re-licensed until the fine is collected by the commission.

We judgmentally selected 100 of 138 licensed individuals with outstanding fines over 90 days from the NJRC List of Fines Not Collected report for the period March 13, 2000 through August 30, 2019. We selected 65 licensed individuals from March 2000 to August 2010, and the remaining 35 were from July 2016 to May 2019. The individuals listed in the report did not pay their fines within the required 48 hours. We reviewed the NJRC system to verify if these individuals were suspended and placed on the security guide and noted the commission did not suspend the licenses of 18 individuals.

In addition, for the same sample of 100 individuals, we noted 91 rulings with fines totaling $272,000 are still outstanding of which 69 rulings totaling $215,725 (76 percent) range from 10 to 19 years old. If an agency is unable to collect debt within 90 days, the account should be transferred to the Department of Treasury, Division of Revenue and Enterprise Services (DORES) for further collection efforts, as stated in the Treasury Circular No. 13-11-OMB. The commission has not referred any unpaid fines to DORES.

The commission is responsible for adequately managing the collection of unpaid and overdue fines. The lack of the commission's enforcement of controls with regards to suspensions, increases the risk that suspended individuals could participate in horse racing activities.

Federal Fingerprinting

Licensees of the commission were not always fingerprinted in a timely manner.

Per the commission's internal policy, all licensed individuals who are involved with the horses are to be fingerprinted on both the state and federal levels which includes a criminal background check. The state policy requires fingerprinting to be completed only one time, while federal rules require fingerprinting every five years.

DEPARTMENT OF LAW AND PUBLIC SAFETY
NEW JERSEY RACING COMMISSION
SELECTED PROGRAMS (continued)

Using the NJRC system, we tested to determine whether applicants licensed during January 2019 had been federally fingerprinted as required. From the 1,520 licenses issued for the month of January, we selected only those categories that would require federal fingerprints and determined that 894 licenses for 771 individuals required federal fingerprints. We randomly selected 89 of the 894 licenses and tested to determine if the 82 individuals possessing those licenses were in compliance with the federal fingerprinting requirements. We noted the following exceptions with 32 of the 82 (39 percent) licensed applicants:

- Seven had no record of meeting the federal fingerprint requirement on file and have held licenses, ranging from 1 to 28 years.
- Six were overdue for their fingerprint renewal, ranging from 9 months to 19 years overdue.
- Nineteen had records of current federal fingerprints on file; however, the current fingerprints were renewed beyond the five-year period, ranging from 1 to 26 years overdue.

The commission is to notify the licensees when their federal fingerprints are due for renewal when they file an application to renew their license for that calendar year. If the license is renewed in person, the notification is verbal, whereas if the license renewal is done via mail the notification is sent in writing.

The commission did not properly monitor the fingerprinting process of licensees for initial fingerprints as well as renewals. In order to maintain the integrity of the New Jersey horse racing industry, the commission needs to ensure fingerprints are updated so that criminal background checks are competed timely.

Equine Fatality Reporting

Equine Fatality Reports (report) are not always complete and the timeliness of the submission of reports cannot be determined.

N.J.A.C. 13:70-14.16 states that all equine fatality reports regarding any equine death occurring on the grounds of any licensed racetrack or approved off-track stabling facility must be submitted to the commission. These reports must include the following information: name and tattoo number of deceased equine, trainer of record, owner of record and particulars regarding purchase of equine, particulars as to time, date and place of death, disclosure of any post-mortem examination, attending veterinarian, cause of death, particulars as to the removal of carcass, and pertinent information regarding existing insurance coverage. It is the responsibility of the trainer, custodian, or veterinarian of the decreased animal to submit this report within ten days to the commission, as

DEPARTMENT OF LAW AND PUBLIC SAFETY
NEW JERSEY RACING COMMISSION
SELECTED PROGRAMS (continued)

stated in the report. Failure to file the report in a timely manner, or filing in an incomplete manner, may subject a trainer, custodian, or veterinarian to disciplinary action.

We reviewed the equine fatality reports from calendar year 2014 through calendar year 2018 to determine if the reports were complete. According to the administrative code, reports are not required to be submitted for ponies. There were a total of 119 reports submitted during this time; however, eight reports were submitted for ponies. Therefore, we tested 111 of the 119 reports and noted 50 (45 percent) of the required reports were missing information, thus making them incomplete. We noted the following:

- Eighteen of the 111 reports (16 percent) reviewed were submitted without the tattoo number.

- Thirty-four of the 111 reports (31 percent) were submitted with inadequate information regarding the carcass removal.

- Six of the 111 reports (5 percent) were missing the necessary signature of either the trainer, custodian, or veterinarian.

- Eight of the 111 reports (7 percent) were submitted without the owner or trainer's name being listed.

In addition, we could not determine the timeliness of the submission of any of the reports to the commission because the reports were not date-stamped when received.

Lack of complete information on the equine fatality reports, such as missing tattoo numbers, makes it difficult for the commission to properly identify racehorses that are deceased. Timely submission and completed reports assist the commission in maintaining proper oversight of the general health of the racehorses under its jurisdiction, as well as observing any trends in racing-related fatalities of racehorses in New Jersey.

IT System Controls

Controls over user access privileges and adding and removing users from the system need to be improved.

The commission uses an internal computer system called Licensing, Mutuels, and Bleeders System (NJRC system) on a daily basis to record revenues billed and collected, rulings and fines issued, and any related horse data. According to the *New Jersey Statewide Information Security Manual* (SISM) "agencies should review access privileges granted to users every six months to determine if access rights are commensurate with the user's job duties." We reviewed to determine if user

DEPARTMENT OF LAW AND PUBLIC SAFETY
NEW JERSEY RACING COMMISSION
SELECTED PROGRAMS (continued)

access delete privileges in the NJRC system were in accordance with their job duties. We reviewed all 19 users and found six have the ability to delete a license transaction within the system. Delete privilege allows users to delete not only their own activity but others' as well. In addition, neither the commission and/nor the Law and Public Safety Information Technology Unit (LPS IT) monitor users' delete activity. LPS IT could not provide delete activity within the NJRC system upon our request. However, LPS IT was able to create a spreadsheet at a later date that documented delete activity, but we could not determine the completeness of that report. With multiple users having delete capability and a lack of consistency over who has this privilege, the commission is reducing the integrity of the data for use in the commission's own operations.

The commission has no formal written policy for granting and removing system user access. SISM recommends agencies establish and document formal account creation and registration processes including a written or electronic request from an appropriate authorized manager. LPS IT could not provide us any documentation to determine when users were actually removed from the system. They stated that the access privileges are reviewed every pay period by cross-checking commission users with payroll data, and if a user does not appear on the payroll data, their account is disabled. LPS IT staff could not provide us any documentation to support this process. However, we tested to determine if separated employees had their access removed and noted no exceptions.

DEPARTMENT OF THE TREASURY
DIVISION OF PURCHASE AND PROPERTY
NEW JERSEY STATE OF THE ART REQUISITION TECHNOLOGY (NJSTART)
INFORMATION TECHNOLOGY APPLICATION

Background

The Division of Purchase and Property (DPP or division) within the Department of the Treasury, was created under N.J.S.A. 52:18A-3 and serves as the state's central procurement agency. The division's mission is to professionally and ethically procure the best valued products and services in a timely and cost effective manner in accordance with state laws and regulations to enable client agencies to meet their objectives.

The NJSTART application is a commercial off-the-shelf Software-as-a-Service (SaaS) application developed by a contracted vendor. SaaS is a software licensing model which allows access to software on a subscription basis using external servers. The DPP does not manage or control the underlying cloud infrastructure or the application code. NJSTART was purchased in 2012 and was first made available to the state's vendor community in 2014. In June 2016, the system was made available to agency procurement specialists for contract administration.

DPP procurement specialists use NJSTART to track the progress of request for proposals (RFPs) to the contract award. Agencies use the system to create purchase orders and approve invoices for payment. Vendors use the system to create their vendor profile, submit bid proposals, and store various state-required compliance documents. Local municipalities use the system to view vendor compliance forms and available contract documents.

The application is accessible to most state purchasing agents and vendors through permissions assigned to their myNJ portal accounts. Agency staff use a pass-through authentication method that allows them to access NJSTART after successful login to the myNJ portal without a secondary log in. In addition, DPP employees can access the application through a web-based program interface. The DPP staff is responsible for managing access to the application, and the using agency's Organization Administrator (OA) determines the roles to be assigned within the respective agency.

Logical Access – Authentication

Access controls limit or detect inappropriate access to computer resources, thereby protecting them from unauthorized modification, loss, and disclosure. Logical access authentication controls require users to provide sufficient evidence of their identity before they are granted access to a system. Entities are responsible for managing authentication controls to ensure that only users who are supposed to access the system have the ability to do so. Without adequate access controls, unauthorized individuals, including outside intruders and former employees, can read and copy sensitive data and make changes or deletions that could go undetected. Inadequate access controls also diminish the reliability of computerized data and increase the risk of inappropriate disclosure or destruction of that data.

DEPARTMENT OF THE TREASURY
DIVISION OF PURCHASE AND PROPERTY
NEW JERSEY STATE OF THE ART REQUISITION TECHNOLOGY (NJSTART) INFORMATION TECHNOLOGY APPLICATION (continued)

In each agency that utilizes NJSTART, the OA for the agency is responsible for user account maintenance. Included in this maintenance is the creation, modification, suspension, and removal of user accounts within the guidelines of the *New Jersey Statewide Information Security Manual* (SISM), which governs information security practices in the executive branch of government. At the time of our testing, NJSTART had 44,221 vendor accounts, of which 43,918 were active, and 4,909 user accounts, of which 3,815 were active.

Separated employees have active access to the NJSTART application.

Our analysis of the 3,815 active NJSTART user accounts found 476 belonging to employees who have separated from state service. Of those, 286 accounts had no last login date, which indicated they had never been used. We further analyzed the 190 accounts that did have a last login date to determine if the account had been accessed after the individual's separation date and found 67 accounts having a last login date after their separation date. The average number of days after separation that the account was accessed was 311 days, with the longest period between separation and access being 1,681 days. We matched the 67 accounts which had accessed the NJSTART system after their separation date with the purchase order, receipt, and invoice transactions dated during the audit period and found two accounts that were attached to at least one aspect of a transaction where the date of that aspect of the transaction was after the user's separation date. For the remaining 65 users, we were unable to determine what actions these accounts had taken after logging in because the NJSTART application only stores seven weeks of history of complete account activity in its logs, and none of those 65 accounts had a last login that was within seven weeks of the completion of our analysis.

According to the SISM, agencies are responsible for ensuring proper user identification and authentication management for all standard and privileged accounts on systems, which includes immediately revoking access for any terminated users. DPP personnel stated that the OAs of the different agencies that use the NJSTART application are responsible for adding and removing users for their organization; however, the results of our analysis demonstrate that OAs are not removing employee access upon separation from employment.

The use of the pass-through authentication method through the myNJ portal for NJSTART access by a large number of users makes the removal of user accounts in NJSTART even more important because the myNJ portal does not have password expiration implemented, therefore the myNJ portal account will not be disabled automatically. Active user accounts belonging to separated employees could be used to improperly access and use the system.

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DIVISION OF PURCHASE AND PROPERTY
NEW JERSEY STATE OF THE ART REQUISITION TECHNOLOGY (NJSTART) INFORMATION TECHNOLOGY APPLICATION (continued)

NJSTART users who transferred to other agencies retained access to their previous agency.

We identified 51 active accounts belonging to employees who had transferred to another state agency and whose account access to their previous agency was still assigned. Of those, 14 accounts had no last login date, which indicated that they had never been used. We further analyzed the 37 accounts having a last login date and found that 28 had been logged into after the user's date of transfer. The average number of days after transfer that these accounts were accessed was 364 days, with the longest period between transfer and access being 1,438 days. We matched the 28 accounts which had accessed the NJSTART system after their transfer date with the purchase order, receipt, and invoice transactions dated during the audit period to determine if they were associated with any aspect of a transaction in their old organization after their transfer date. We found four accounts that were attached to at least one aspect of a transaction for their previous organization where the date of that aspect of the transaction was after the user's transfer from that organization. For the remaining 24 users, we were unable to determine what actions these accounts had taken after logging in because the NJSTART application only stores seven weeks of complete account activity in its logs, and none of the 24 accounts had a last login that was within seven weeks of the completion of our analysis.

In addition, we found 11 user accounts where we could not match the user's name with anyone having worked for the agency to which they were assigned in NJSTART. Eight of these accounts had been accessed. We matched the eight accounts which had accessed the NJSTART system with the purchase order, receipt, and invoice transactions dated during the audit period to determine if they were associated with any aspect of a transaction and found one account that was attached to at least one aspect of a transaction. For the remaining seven users, we were unable to determine what actions these accounts had taken after logging in because the NJSTART application only stores seven weeks of complete account activity in its logs, and none of the remaining seven accounts had a last login that was within seven weeks of the completion of our analysis.

Although agency OAs have the ability to disable users within their agency, DPP personnel stated that only the DPP has the ability to change the person's associated approval organization, after a request from the agency. We found no formal process documented for this. Active accounts with access to transactions in other agencies could allow for unauthorized access by the account owner or by someone else using the account.

Accounts created and never used are not being disabled after 30 days.

The SISM defines the requirement to disable a user account if the initial password is not used within 30 days. We identified 1,145 active user accounts having no last login date, indicating that they had never accessed the application. The NJSTART application maintains a record of the last

DEPARTMENT OF THE TREASURY
DIVISION OF PURCHASE AND PROPERTY
NEW JERSEY STATE OF THE ART REQUISITION TECHNOLOGY (NJSTART) INFORMATION TECHNOLOGY APPLICATION (continued)

date in which the account was altered for any reason (including creation of the account), and based on that date we determined that 1,139 (99 percent) of these active user accounts had been outstanding (not accessed) more than 30 days and should be disabled and/or removed. We aged these accounts by the date last altered and found:

- 144 user accounts had been outstanding one year or less,
- 106 user accounts had been outstanding between one and two years,
- 102 user accounts had been outstanding between two and three years,
- 51 user accounts had been outstanding between three and four years, and
- 736 user accounts (65 percent) had been outstanding more than four years.

The 736 user accounts outstanding more than four years includes the time before the application was rolled out to state agencies for pilot. Prior to commencing operations of the application for the agencies, the DPP requested that agency OAs review, edit, and update their agency users' profiles. However, the number of users outstanding more than four years indicates that many agencies did not perform this review before rollout, and that none has been done since.

The Organization Administrator User Profile Maintenance Guide, created by the DPP, includes account management as a responsibility of each agency's OA(s). Although the guide includes disabling users as an OA function, a lack of defined steps for disabling user accounts within the guide could have contributed to the difficulty of completing this task.

Non-utilized User IDs are not being disabled and removed.

The SISM requires that user accounts should be disabled after 60 days of non-use. In addition, once an account has been disabled, it should be removed from the application after 90 days in the disabled status. Our analysis of the 2,670 active NJSTART user accounts having a last login date found that 1,476 (55 percent) should be either disabled (531) or removed (945) from NJSTART based on the time since their last login. These totals included 37 accounts with OA privileges and 13 users whose privileges are assigned to another user via proxy. We aged the 945 accounts that should have been removed based on the last login date, and found:

- 492 user accounts had been outstanding one year or less,
- 251 user accounts had been outstanding between one and two years,

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NEW JERSEY STATE OF THE ART REQUISITION TECHNOLOGY (NJSTART)
INFORMATION TECHNOLOGY APPLICATION (continued)

- 149 user accounts had been outstanding between two and three years, and

- 53 user accounts had been outstanding longer than three years.

We found that the NJSTART application has the ability to purge users that are marked as disabled, which would automate the process of removing users (as long as they were disabled in accordance with the SISM); however, the DPP does not utilize this feature. In addition to the active users, we analyzed 401 NJSTART user accounts that are currently disabled, inactive, or locked, and found that 380 (95 percent) should be removed from the application because their last login date was more than 150 days old (60 days to be disabled and an additional 90 days to be removed).

Observation

Meeting the Purchasing Needs of All Agencies

In the Request for Proposal (RFP) for the system that would eventually become NJSTART, released in May of 2012, the DPP states that its mission is to "professionally and ethically procure the best valued products and services, in a timely and cost effective manner, in accordance with State laws and regulations, to enable government agencies to meet their objectives". The proposal by the winning vendor was accepted in January of 2013 for $5.7 million. During the course of the audit, we became aware of issues with the development and implementation of NJSTART that did not appear to align with the mission of the DPP to procure a system that meets the purchasing needs of all agencies they service.

Contract Deliverables (DPA and Waiver Transactions)

NJSTART is intended to replace the legacy Management Acquisition and Control System enhanced (MACSe) that state agencies use for the procurement of most goods and services. During the audit, more than six years after the contract was signed, we found that NJSTART is still not handling all types of purchasing transactions. Specifically, the MACSe is still handling Delegated Purchase Authority (DPA) and Waiver of Advertising (WOA) transactions for all agencies. At the start of the audit period, the division stated that these transaction types were to be rolled out to agencies in 2019; however, as of the end of our fieldwork they still had not been. The DPP provided us no convincing explanation as to why DPA and WOA transactions were not moved to NJSTART during the projected time period.

Contract Deliverables (MACSe and FMIS Interface)

Part of the functionality of the MACSe system includes job cost allocation for capital projects

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NEW JERSEY STATE OF THE ART REQUISITION TECHNOLOGY (NJSTART) INFORMATION TECHNOLOGY APPLICATION (continued)

that is used by at least one state department to track construction projects and to submit appropriate expenses to the federal government for reimbursement through the Financial Management Information System (FMIS). NJSTART does not have this functionality, and any departments utilizing this function of the MACSe must continue to utilize the MACSe for purchasing. Therefore, the MACSe cannot be truly replaced until either a job cost allocation system is a part of NJSTART, or a new cost allocation system is obtained and interfaced with NJSTART, the state's accounting system, and the FMIS.

Our analysis of the RFP and project deliverables for NJSTART, as well as interviews of other state department personnel, identified some issues that may have led to this ongoing situation:

One such issue is that the RFP does not include the job cost allocation function in the system requirements for the FMIS interface, which the RFP only states "must remain intact as currently defined". The FMIS is described as an "internal accounting system for taking time sheet information and determining if Federal funds can be used to pay them and generate an invoice bill to send to the Federal government. The FMIS gets data from MACSe in a nightly batch process." There is no mention of the job cost allocation aspect of the MACSe, nor its interface with the FMIS.

The assessment of the current program, conducted by the vendor, first identified the interconnection between the FMIS and the MACSe as an entry point for budgetary and accounting transactions that moves transactions between the MACSe, the state's accounting system, and the FMIS for federal funds management. The vendor stated that these transactions are not purchasing related, and that the issue was beyond the scope of their contract with the state. The vendor concluded that the need for NJSTART to provide support for the FMIS budgetary and cost allocation transactions currently supported by the MACSe made an interface between NJSTART and FMIS ineffective for meeting the needs of the departments utilizing it, and when the MACSe is replaced by NJSTART, the current point of entry for budgetary and accounting transactions will be unavailable to support departments' processes. Based on these conclusions, the vendor stated that no interface would be developed and that "the requirements related to this scope element are no longer valid." We were unable to obtain any information from the DPP concerning the process that ended with the vendor's conclusion and the state's acceptance of it because most of the key staff members, including the DPP's project manager from that period, are no longer employed by the state.

The state did create a potential work-around which would allow the addition of the necessary financial information into the state's accounting system before allowing the purchase to process. However, a purchase could still be sent through without this necessary financial information being entered because the work-around does not hold the transaction until the financial information is

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entered, it only provides the opportunity to enter the information. This work-around therefore could result in missed federal reimbursements. In addition, the work-around only applies to job costing for goods and services, but not to capital projects, which represent a significantly larger percentage of total construction expenditures submitted to the federal government. The work-around would only serve to split commodity and capital projects job costing between NJSTART and the MACSe, a split that would be permanent if the job cost accounting for the capital projects is never developed. There is a current proposal from the vendor for custom configuration which it stated will provide the ability to hold the transaction in NJSTART, as well as address capital purchases, at an additional cost of $1.4 million. By the end of field work, we noted no progress on this issue.

The RFP specifically states that the vendor solution should assist the state in 1) ensuring that all disbursement transactions made in the state's accounting system are reflected in the new system, 2) combining all procurement functions into a single integrated solution, and 3) improving IT economies of scale by eliminating in-house mainframe costs and IT maintenance by consolidating all procurement functions into a single system. Until DPA and WOA transactions utilize NJSTART and a solution to the FMIS interface is developed and implemented, the state must continue to use two purchasing systems for different types of transactions, thereby incurring the additional cost of maintaining the MACSe. In addition, all procurement functions are neither in a single integrated solution, nor are all disbursement transactions in the state's accounting system reflected in the new system.

DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION
TAXPAYER UNREMITTED LIABILITY INVENTORY PLOTTING SYSTEM AND THE GENERIC TAX SYSTEM

Background

The Taxpayer Unremitted Liability Inventory Plotting System (TULIPS) has been the division's case management and tracking system for delinquent and deficient taxpayers and their tax liabilities since 1986. The Generic Tax System (GENTS) is the division's taxpayer account maintenance system and was implemented in 1988. Prior to July 2017, the Office of Information Technology (OIT) administered both applications; however, after the issuance of Executive Order No. 225 in 2017, the OIT programmers and analysts responsible for the TULIPS and GENTS applications were transferred to the Department of the Treasury, Division of Revenue and Enterprise Services (DORES). Since that time, DORES has administered both the TULIPS and GENTS applications. The Department of the Treasury, Division of Taxation (division) is the application and data owner of these applications.

The TULIPS generates approximately 1.7 million notices and completes 1.5 million cases annually with annual compliance collections estimated at $1.0 billion. The GENTS processes more than 10 million transactions totaling $31.2 billion annually. Each of these applications also interfaces with other internal Treasury systems as well as external agency systems.

Logical Access – Authentication

Access controls limit or detect inappropriate access to computer resources, thereby protecting them from unauthorized modification, loss, and disclosure. Logical access authentication controls require users to provide sufficient evidence of their identity before they are granted access to a system. Entities are responsible for managing authentication controls to ensure that only authorized users have the ability to access the system. Without adequate access controls, unauthorized individuals, including outside intruders and former employees, can read and copy sensitive data and make changes or deletions which may go undetected. Inadequate access controls can affect the reliability of computerized data and increase the risk of destruction or inappropriate disclosure of data.

The TULIPS and GENTS applications are part of the Division of Taxation's legacy tax system, TAXNET, which also includes two other applications that were not part of the audit scope. As of July 8, 2019, there were 2,023 authorized internal and external users of TAXNET having the ability to access the TULIPS and GENTS applications with varying privileges based upon their job responsibilities.

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DIVISION OF TAXATION
TAXPAYER UNREMITTED LIABILITY INVENTORY PLOTTING SYSTEM AND THE GENERIC TAX SYSTEM (continued)

Separated employees' TAXNET user IDs were still active, and mainframe access was not removed in a timely matter.

We found that 54 user accounts listed as active in TAXNET with access to the TULIPS and/or GENTS applications were associated with individuals who separated from state service. Although active in TAXNET, if a user's mainframe (ACF2) account has been canceled, removed, or suspended, it would prevent the person from accessing the mainframe environment, which would prevent access to TAXNET. We tested these employees' ACF2 accounts to determine if they still had access to the mainframe environment and found that all 54 employees' ACF2 accounts had been canceled, removed, or suspended as of the date of our testing. While all 54 accounts had been successfully canceled, removed, or suspended from ACF2, only 29 had a date attached to their ACF2 account suspension because accounts are removed from ACF2 after being in suspended status for a period of time. We compared these 29 user account suspension dates to the user's separation date and determined that 18 of the user accounts were suspended more than 30 days after their separation date, with an average of 872 days between separation and suspension. Although the risk of not disabling the TAXNET user account could be mitigated by the ACF2 suspension, the ACF2 accounts are not being suspended immediately upon termination, thereby leaving a window where the separated employee could potentially access the TULIPS and GENTS applications.

The division is responsible for maintaining user access to TAXNET, which includes adding new users, modifying privileges for active users, and removing users who no longer require access. The *New Jersey Statewide Information Security Manual* (SISM) requires agencies to immediately revoke access to systems for any separated users, as well as review users' access rights at least every six months and maintain evidence that the reviews are completed.

Division personnel informed us that they perform a semi-annual review of active TAXNET users; however, our testing indicates that these reviews are not occurring every six months or are not covering all the necessary areas of access controls, and results are not being documented. If the review was being performed and was comprehensive, the accounts for the separated employees we noted would have been disabled or removed on a timelier basis from both TAXNET and ACF2. The division appears to be relying on the compensating control of the disabling of the ACF2 account after 90 days of inactivity.

The division's logical access controls related to granting and modifying access to the TULIPS and GENTS applications need improvement.

When an employee requires new or modified access to TAXNET applications, an employee access form is completed and approved by the appropriate supervisor and sent to the TAXNET help desk.

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DIVISION OF TAXATION
TAXPAYER UNREMITTED LIABILITY INVENTORY PLOTTING SYSTEM AND THE GENERIC TAX SYSTEM (continued)

During the audit period, these forms were moved from paper to digital retention by the division's Data Systems area. When we received access to the forms, we observed that the division did not follow a naming convention for these files, which made it difficult to identify an individual's employee access form.

We tested all 14 employees who were added to TAXNET during our audit period and given an approval authority for more than $100,000 in refund or credit areas. We tested these employees for properly completed and approved employee access forms, and to ensure the forms were retained. For 8 of the 14 employees, the access form could not be located. The remaining six forms were properly completed, approved, and retained; however, one of the users was incorrectly assigned an approval level far above what was requested because of a data entry error.

The SISM states that agencies are responsible for proper controls related to the addition, deletion, and any modification of user IDs. This includes retaining the authorization forms as proof of proper modifications. The missing access forms make it difficult to determine if access was appropriately approved and applied

Contingency Planning

The TULIPS and GENTS applications have aspects of contingency planning that are either outdated or missing

Contingency planning consists of technical and operational aspects. The technical aspects are the processes connected to backing up and restoring an information technology system to a ready state with minimal loss of time, functionality, and data. The operational aspects are the processes and procedures that are used to put the agencies' employees and customers in a position to resume normal operations. We found that the TULIPS and GENTS applications had deficiencies in both the technical and operational aspects of contingency planning.

The OIT performs quarterly tests of the underlying mainframe infrastructure that supports both the TULIPS and GENTS applications. This test is performed on the backup mainframe and includes activating the application, which requires the hardware and the underlying application to be restarted and brought to a ready state. In addition, agencies can request that their application be exercised (restored to a point in time requested by the agency). At that point, the agency can access the application to perform planned tasks, including running mainframe application jobs and manipulating data, to validate that the recovered application is performing as expected. In order to exercise the application, the agency must coordinate with OIT disaster recovery personnel to build an exercise plan, which would have the requirements needed. The OIT confirmed to us that the TULIPS and GENTS applications have not been exercised by the division.

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TAXPAYER UNREMITTED LIABILITY INVENTORY PLOTTING SYSTEM AND THE GENERIC TAX SYSTEM (continued)

With regard to the operational aspects, the division's business continuity plan (BCP) was completed in 2009, and upon review we found that the plan had outdated information, including critical personnel contacts and technology requirements in the event of a disruption. In addition, the plan referenced another BCP plan which was incomplete at the time. The OIT also conducts a business impact analysis (BIA) for major IT systems it supports. The BIAs for the TULIPS and GENTS applications were completed in 2009. Since then, the OIT has updated and modified the process to include new information to reflect the changing computing landscape. Based on the completion of the BIA, the OIT performs a risk assessment. During the audit, the division stated that the OIT was in process of obtaining updated BIA information for all systems that had not been reviewed in the previous two years, which includes the TULIPS and GENTS applications.

The SISM states that agencies should review contingency plans at least annually and update the contingency plan to address changes to the agency, system, or environment of operation. In addition, agencies should test the plans to determine their effectiveness and document the test results. Failure to have current contingency plans or to test the recovery and restoration of the TULIPS and GENTS applications and data increases the risk that response to, and recovery from, an incident will not meet objectives. Any resulting service outages due to insufficient and untested plans would impact the ability of the division to perform essential functions for the state.

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY
SELECTED COVID-19 EMERGENCY ASSISTANCE PROGRAMS

Background

On March 9, 2020, the governor declared a State of Emergency and a Public Health Emergency in response to the emerging COVID-19 pandemic. The governor has continued to extend the Public Health Emergency, which was still in effect as of February 28, 2021. Each of the four programs we reviewed were implemented specifically to provide relief to businesses and non-profits impacted during the declared State of Emergency caused by the COVID-19 pandemic.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted by Congress on March 27, 2020 to help address the COVID-19 outbreak and its impact on the economy, public health, state and local governments, individuals, and businesses. The CARES Act provided for payments to state, local, and tribal governments through the established $150 billion Coronavirus Relief Fund (CRF). As of March 5, 2021, the New Jersey Economic Development Authority (EDA) has accepted a total of $219.8 million in CARES Act funds from the New Jersey Department of the Treasury through the CRF for the programs we reviewed, $4.8 million of which is for administrative costs. The NJEDA used its own funds in some of the programs reviewed. Of the $219.8 million in CARES Act funds, $198.3 million had been disbursed (90.2 percent). The deadline for incurring expenses for the CRF is December 31, 2021. It should be noted that, if the state transfers CRF funds to another entity, the state, as the primary recipient of the funds, is ultimately responsible if any sub-recipients do not meet federal criteria for spending the funds; the U.S. Department of the Treasury will ultimately seek to recoup, from the state, any improperly spent funds.

A brief description of each program and a summary of the programs’ funding and disbursements follows.

Loan Phase 1

On March 26, 2020, the NJEDA board approved Loan Phase 1 as a pilot program, which did not use CRF funds. The NJEDA allocated $10.0 million in available funds for Loan Phase 1, all from its Economic Recovery Fund. As of February 17, 2021, the NJEDA disbursed $9,650,114 of the Loan Phase 1 funds (97 percent) to 140 businesses and non-profits. Loan Phase 1 provided financing of up to $100,000 to existing businesses and non-profits physically located in New Jersey that could document having been negatively impacted by COVID-19 while also meeting other program eligibility requirements. Loans were to be used for working capital only. They have a term of 10 years, with an initial interest rate of zero percent for the first five years, followed by a maximum rate of three percent for the remaining five years. In addition, principal payments have been deferred for at least one year.

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY SELECTED COVID-19 EMERGENCY ASSISTANCE PROGRAMS (continued)

Grant Phase 1

Grant Phase 1 was also approved as a pilot program by the NJEDA board on March 26, 2020. The program provided minimum grants of $1,000 and up to $5,000 to New Jersey-based businesses and non-profits having between 1 and 10 full-time equivalent employees in addition to meeting other program eligibility requirements. The NJEDA launched Grant Phase 1 on April 3, 2020 and stopped accepting applications by April 10, 2020, having received approximately 34,000 requests for funds.

The NJEDA initially allocated $5.0 million in NJEDA unrestricted funds for Grant Phase 1, which was later reimbursed by the CRF. On May 22, 2020, the NJEDA board approved an additional $5.0 million in unrestricted funds to be used for the program, which was also later reimbursed by the CRF. In addition, $2.0 million was donated from the state's Casino Reinvestment Development Authority (CRDA) to be used for businesses located in Atlantic County. There was $910,000 returned to the CRDA because of a lack of eligible applicants from Atlantic County, leaving a total allocation of $11,090,000 for Grant Phase 1. As of August 24, 2020, the NJEDA disbursed $10,575,000 of the Grant Phase 1 funds (95 percent) to 3,262 businesses and non-profits.

Grant Phase 2

To address the continued demand from small businesses and non-profits, particularly those that were ineligible for Grant Phase 1 funds, the NJEDA board approved Grant Phase 2 on May 22, 2020. It provided minimum grants of $1,000 and up to $10,000 to New Jersey-based businesses and non-profits with 25 or fewer full-time equivalent employees, with any funds received through Grant Phase 1 reducing the Grant Phase 2 amount. Eligibility was also extended to home-based businesses and sole proprietorships.

The NJEDA initially allocated $90.0 million in available funds to Grant Phase 2. The board approved the use of $45.0 million from the CRF on May 22, 2020, $5.0 million of which has since been reallocated to Grant Phase 3. An additional $15.0 million in CRF funds was approved on August 11, 2020 to be used in the 12 New Jersey counties that did not receive CRF funding directly from the U.S. Department of the Treasury, with $5.0 million also being later reallocated to Grant Phase 3. In addition, the NJEDA received $30.0 million in county-specific CARES Act funds from Essex ($10.0 million), Ocean ($10.0 million), and Passaic ($10.0 million) counties. Because of a lack of eligible applicants in those counties during the program's open window, $20,415,000 was returned to those counties. The final allocation for Grant Phase 2, after reallocations and returns, was $59,585,000. As of February 19, 2021, the NJEDA disbursed $55,371,000 of the Grant Phase 2 funds (93 percent) to 19,267 businesses and non-profits.

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY SELECTED COVID-19 EMERGENCY ASSISTANCE PROGRAMS (continued)

Grant Phase 3

On October 14, 2020, Grant Phase 3 was approved by the NJEDA board to provide minimum grants of $5,000 and up to $20,000 to New Jersey-based businesses and non-profits with 50 or fewer full-time equivalent employees. Funding received in Grant Phases 1 and 2 would not affect the award sizes in Grant Phase 3, but was included in the NJEDA's duplication of benefits analysis required by the federal government.

The NJEDA allocated $146.0 million in available funds to Grant Phase 3: $120.5 million of CRF funds it received from the state, $10.0 million from Grant Phase 2 reallocations (CRF funds), and $15.5 million in reallocations from the NJEDA's Personal Protective Equipment (PPE) Access Program. As of February 26, 2021, the NJEDA disbursed $144,066,000 of the Grant Phase 3 funds (98.7 percent) to 20,236 businesses and non-profits.

Funding Summary

NJEDA Program	Initial Allocation	less Returns and Reallocations	Final Allocation	Disbursed	%	Funding Sources and Notes
Loan Phase 1	$ 10,000,000	$ -	$ 10,000,000	**$ 9,650,114**	**96.5%**	$10.0m from ERF
Grant Phase 1	$ 12,000,000	$ 910,000	$ 11,090,000	**$ 10,575,000**	**95.4%**	$10.0m from the CRF[1] $2.0m from CRDA ($910,000 returned)
Grant Phase 2	$ 90,000,000	$ 30,415,000	$ 59,585,000	**$ 55,371,000**	**92.9%**	$45.0m from CRF[2] ($5m reallocated to Grant Phase 3) $15.0m from CRF[3] ($5m reallocated to Grant Phase 3) $30.0m from counties[4] ($20.415m returned)
Grant Phase 3	$ 146,000,000	$ -	$146,000,000	**$144,066,000**	**98.7%**	$120.5m from CRF $10.0m reallocated from Grant Phase 2 $15.5m reallocated from NJEDA PPE Access Program
Totals	$ 258,000,000	$ 31,325,000	$226,675,000	**$219,662,114**	**96.9%**	

[1] On March 26, 2020, the NJEDA funded an initial $5.0 million, which was later reimbursed by the CRF. On May 22, 2020, it funded an additional $5.0 million, which would also get reimbursed by the CRF.
[2] Approved on May 22, 2020.
[3] Approved on August 11, 2020.
[4] From Essex, Ocean, and Passaic counties, $10.0 million each in county-specific CARES Act funds.

Application Process

For each of the four programs we reviewed, applications were submitted through an online portal that integrated with Dynamics 365, the NJEDA's customer relationship management system. The NJEDA accepted applications on a rolling, first-come, first-served basis until funding was exhausted. Funding was considered exhausted when the accepted applications were sufficient to use up the allotted funds. Businesses with applications accepted for review by the NJEDA were

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SELECTED COVID-19 EMERGENCY ASSISTANCE PROGRAMS (continued)

then determined to be either approved for disbursement or declined. Some declined applications were appealed and, after an additional review, either approved for disbursement or declined. Businesses that submitted their applications after funds were exhausted were grouped in a "Non-Decisioned" category.

Applicants That Went Out of Business

We judgmentally sampled 150 of 39,780 business that did not receive funding because their applications were submitted after program funds were exhausted and determined 12 (8.0 percent) were no longer operating. Conversely, we found only 3 of the 135 sampled businesses that received funds (2.2 percent) from one of the programs we reviewed were no longer in business

Businesses Receiving Overlapping Funding

Businesses can receive assistance from multiple programs offered by the NJEDA, as long as they meet the eligibility requirements of each program from which they receive funds. The following chart illustrates the number of businesses that received assistance from more than one program and the amounts disbursed to those businesses from those programs.

NJEDA Emergency Assistance Program Overlaps (Disbursed)	Count	Loan Phase 1 Total Disbursed Amount as of 2/17/2021	Grant Phase 1 Total Disbursed Amount as of 8/24/2020	Grant Phase 2 Total Disbursed Amount as of 2/19/2021	Grant Phase 3 Total Disbursed Amount as of 2/26/2021	Total
Grant Phase 1 and Grant Phase 2	309	$ -	$ 1,345,000	$ 714,000	$ -	**$ 2,059,000**
Grant Phase 1 and Loan Phase 1	23	$ 1,439,974	$ 85,000	$ -	$ -	**$ 1,524,974**
Grant Phase 2 and Loan Phase 1	42	$ 2,825,751	$ -	$ 190,000	$ -	**$ 3,015,751**
Grant Phase 1, Grant Phase 2, and Loan Phase 1	5	$ 451,388	$ 24,000	$ 13,000	$ -	**$ 488,388**
Grant Phase 1 and Grant Phase 3	1259	$ -	$ 4,199,000	$ -	$ 9,188,000	**$ 13,387,000**
Grant Phase 2 and Grant Phase 3	7076	$ -	$ -	$ 23,114,000	$ 47,702,000	**$ 70,816,000**
Grant Phase 3 and Loan Phase 1	61	$ 3,891,995	$ -	$ -	$ 485,000	**$ 4,376,995**
Grant Phase 1, Grant Phase 2, and Grant Phase 3	191	$ -	$ 851,000	$ 461,000	$ 1,788,000	**$ 3,100,000**
Grant Phase 1, Grant Phase 3, and Loan Phase 1	15	$ 1,019,425	$ 64,000	$ -	$ 135,000	**$ 1,218,425**
Grant Phase 2, Grant Phase 3, and Loan Phase 1	32	$ 2,133,805	$ -	$ 127,000	$ 240,000	**$ 2,500,805**
Grant Phase 1, Grant Phase 2, Grant Phase 3, and Loan Phase 1	5	$ 451,388	$ 24,000	$ 13,000	$ 50,000	**$ 538,388**

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY
SELECTED COVID-19 EMERGENCY ASSISTANCE PROGRAMS (continued)

Businesses Receiving Small Business Administration Paycheck Protection Program Loans

Businesses that receive funds from one of the NJEDA programs are not excluded from receiving funds through a federal Small Business Administration (SBA) Paycheck Protection Program (PPP) loan. Below is a summary of the number of NJEDA program recipients that also received funds through an SBA PPP loan. The SBA loan information was obtained from the federal *PandemicOversight.gov* website created by the Pandemic Response Accountability Committee.

NJEDA Emergency Assistance Programs	NJEDA Programs Disbursed		NJEDA Disbursed Matched to SBA PPP Loans		
	Count	Total Disbursed	Count	Total NJEDA Disbursed	Total PPP Loans
Loan Phase 1	140	$ 9,650,114	84	$ 5,697,585	$ 7,897,371
Grant Phase 1	3,262	$ 10,575,000	2,419	$ 8,254,000	$ 77,420,604
Grant Phase 2	19,262	$ 55,376,000	8,134	$ 31,145,000	$ 331,865,877
Grant Phase 3	20,236	$ 144,066,000	11,222	$ 87,943,000	$ 652,930,959

Loan Phase 1 Eligibility Determination

The NJEDA applied the incorrect criteria in determining eligibility for some applicants, allowing ineligible businesses to obtain loans.

In order to qualify to receive Loan Phase 1 funds, an applicant was required to have a minimum Global Debt Service Coverage Ratio (ratio) of 1.00 based on financial statements from the year prior to the governor's declaration of emergency related to the COVID-19 outbreak. If an applicant received a federal SBA PPP loan, those funds were considered existing debt in the ratio calculation, with the PPP loan's term being an integral factor in the calculation.

PPP loans have a repayment term of either two or five years. Because PPP loans do not require any payments in the first six months, the NJEDA uses a 1.5- or 4.5-year term when including the loan in existing debt for the ratio calculation, depending on when the loan was issued. Prior to June 5, 2020, the term of a PPP loan was two years. On June 5, 2020, the Paycheck Protection Program Flexibility Act of 2020 was signed into law, extending the repayment term to five years based on the date the PPP loan was issued. Effective June 5, 2020, the NJEDA staff began to use the 4.5-year term for the ratio calculation, regardless of the PPP loan's issuance date. However, according to the SBA, this was incorrect because PPP loans issued on or after June 5, 2020 were subject to the extended term. On August 13, 2020, the NJEDA identified the error and issued a revised policy on August 14, 2020 reflecting the proper usage of the PPP loan's issuance date when deciding which term to use in the ratio calculation. Therefore, for some Loan Phase 1 applications, the NJEDA applied the incorrect PPP loan term when calculating the ratio when determining eligibility.

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We tested 40 Loan Phase 1 loans totaling $3.57 million in disbursements as of August 31, 2020. In 28 of the 40 loans tested, the incorrect PPP loan term was included in the calculation of the ratio. In 14 of the 28 instances, had the correct term been used, the ratio would have been below the required 1.00 ratio, making the applicant ineligible. Consequently, approximately $1.27 million of Loan Phase 1 funds were disbursed to 14 ineligible recipients. Loan Phase 1 did not use any CRF funds; therefore, these funds are not at risk of being disallowed by the federal government.

Because disbursements for Loan Phase 1 increased significantly following our initial testing, we tested five applications of an additional 61 loans that had disbursements. In all five cases, the correct PPP loan term was included in the calculation of the ratio; therefore, we determined the NJEDA's revised policy has been effective.

OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2021

	TYPES OF FINDINGS			
REPORT	**COMPLIANCE**	**CONTROLS**	**ECONOMY/ EFFICIENCY**	**NONE**
Chief Executive's Office	X	X		
Department of Community Affairs				
Disaster Relief - Superstorm Sandy Selected Contracts	X	X		
Section 8 Housing Program				
Financial Data Schedules		Opinion Report		X
Department of Human Services				
Division of Developmental Disabilities				
Woodbine Developmental Center	X	X	X	
Division of Medical Assistance and Health Services				
New Jersey FamilyCare Medicaid Managed Care Rate Setting and Managed Care Organization Administrative Costs	X		X	
Department of Law and Public Safety				
Juvenile Justice Commission				
Juvenile Medium Security Center	X	X		
New Jersey Racing Commission				
Selected Programs	X	X		
Department of the Treasury				
Division of Purchase and Property				
New Jersey State of The Art Requisition Technology (NJSTART) Information Technology Application	X	X		
Division of Taxation				
Taxpayer Unremitted Liability Inventory Plotting System (TULIPS) and the Generic Tax System (GENTS)		X		
New Jersey Economic Development Authority				
Selected COVID-19 Emergency Assistance Programs	X			
Pinelands Commission				
Fiscal Year 2019		Opinion Report		X
Fiscal Year 2020		Opinion Report		X
State of New Jersey				
Annual Comprehensive Financial Report				
For the Fiscal Year Ended June 30, 2020		Opinion Report		X
Fund Balance Report as of June 30, 2020		Special Report		X
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
Schedule of Benefit Claim Payments and Expenses				
Local Education Retired - For the Fiscal Year Ended June 30, 2020		Opinion Report		X
Schedule of Benefit Claim Payments and Expenses				
State Retired - For the Fiscal Year Ended June 30, 2020		Opinion Report		X

*The Annual Comprehensive Financial Report is issued by the New Jersey Department of the Treasury, Office of Management and Budget. It can be found at https://www.nj.gov/treasury/omb/publications/21fr/NJFRFY2021Complete.pdf.