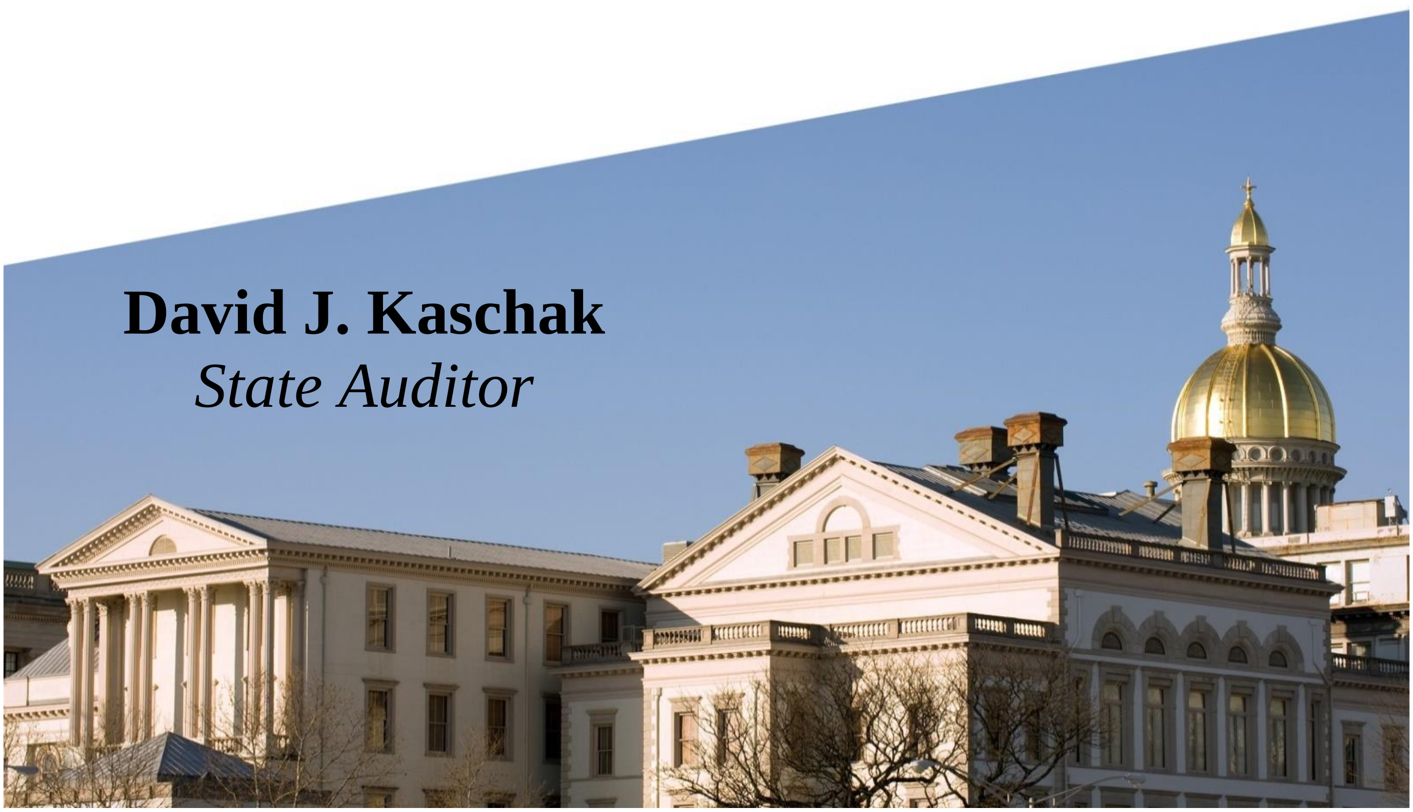
New Jersey Legislature
Office of LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR

2020
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. Peri A. Horowitz
Executive Director
Office of Legislative Services

I am pleased to present to you the *Annual Report of the New Jersey Office of Legislative Services, Office of the State Auditor* for calendar year 2020. In conformance with our responsibilities to perform financial, performance, and compliance audits, all state agencies are audited periodically using a risk-based approach. During 2020, we issued 18 reports and identified $31.4 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
June 29, 2021

TABLE OF CONTENTS

TABLE OF CONTENTS

INTRODUCTION

BACKGROUND

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

The State Auditor is a constitutional officer appointed by the Legislature for a term of five years and until a successor shall be appointed and qualified. On February 11, 2010, Stephen M. Eells, CPA, was confirmed by a joint session of the Legislature as the State Auditor. Mr. Eells retired as the State Auditor on August 31, 2020. David J. Kaschak would later be confirmed by a joint session of the Legislature as the State Auditor on February 23, 2021.

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 www.njleg.state.nj.us/legislativepub/auditreports.asp.

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

INTRODUCTION

MISSION STATEMENT

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

VISION STATEMENT

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

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

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

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

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

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

ACCOMPLISHMENTS

During calendar year 2020, we identified $31.4 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, 2019 disclosed that 75 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 2018 recommendations rose to 85 percent.

The office performs the annual financial audit of the state's Comprehensive Annual Financial Report. The Comprehensive Annual Financial Report engagement includes the audit of 207 funds and component units having a total asset value of $217.5 billion at June 30, 2020.

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 2020
(Expressed in Thousands)

REPORT	COST SAVINGS, IMPROPER PAYMENTS, AND/OR REVENUE ENHANCEMENTS
Department of Health	
Division of Behavioral Health Services	
Ann Klein Forensic Center	$ 7.6
Department of Human Services	
Division of Medical Assistance and Health Services	
New Jersey FamilyCare, Medicaid Pharmacy Program	9,527.2
Department of Labor and Workforce Development	
Temporary Disability Insurance	2,192.1
Department of the Treasury	
Division of Purchase and Property	
Procurement of Information Technology Contracts	1,489.0
New Jersey Transit Corporation	
Rail Operations	9,100.0
Pemberton Township School District	3,897.4
Ridgefield Park School District	4,729.7
Rowan University	415.4
Total Cost Savings, Improper Payments, and Revenue Enhancements	$ 31,358.4

National State
Auditors Association
An Affiliate of NASACT

NSAA

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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	
Joseph Schussler, CPA, CGFM	Michael J. Delaney, CPA, CFE
Concurring Reviewer	Team Leader
External Peer Review Team	External Peer Review Team
National State Auditors Association	National State Auditors Association

AUDIT REPORTS

TYPES OF AUDITS PERFORMED

Financial Audits

Financial audits are designed to provide reasonable assurance about whether the financial statements of an audited entity are fairly presented in conformity with generally accepted accounting principles. The primary annual financial audit conducted by the office is the state's Comprehensive Annual Financial Report, 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 Comprehensive Annual Financial Report opinion audit. We have also issued a special report related to fund balances as of June 30, 2019 in accordance with statutory requirements. Four other financial audits were issued in calendar year 2020.

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 nine performance audits in calendar year 2020. These audits encompassed $11.4 billion and $3.3 billion 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.

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

TYPES OF AUDITS PERFORMED (continued)

School District Audits

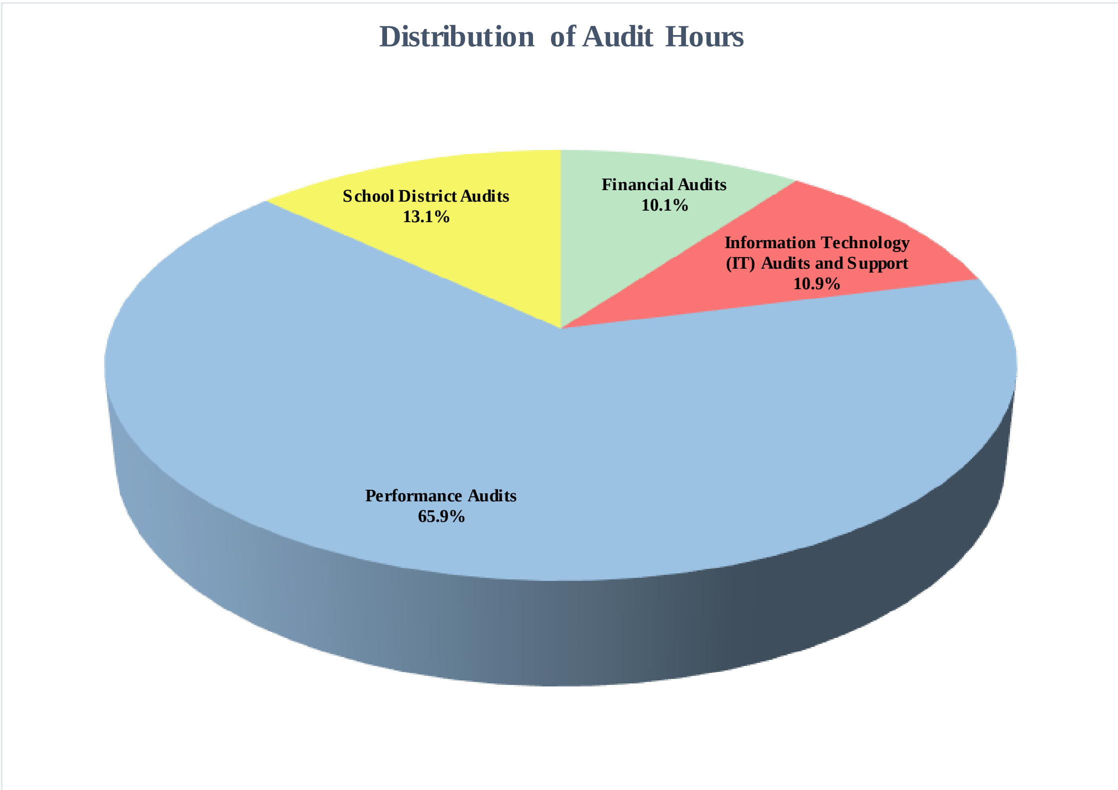
N.J.S.A. 18A:7F-6d authorizes the Office of the State Auditor to audit the accounts and financial transactions of any school district in which the state aid equals 80 percent or more of its net budget for the year. In addition, in accordance with N.J.S.A. 18A:7A-57, the State Auditor is authorized to perform a forensic audit of school districts with a general fund deficit and meeting additional specific criteria as stated in the statute. We audited two school districts in calendar year 2020.

Legislative Requests

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

DISTRIBUTION OF AUDIT HOURS

The distribution of audit hours used in performing audits during calendar year 2020 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 www.njleg.state.nj.us/legislativepub/auditreports.asp.

Reports are statutorily required to be sent to the:

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

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

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

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, 2020, there were 51 staff members, 61 percent of the 84 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, 2020

STATE AUDITOR

Vacant
Robyn Boyer, Administrative Assistant

ASSISTANT STATE AUDITOR

David J. Kaschak, CPA, CGFM

ASSISTANT STATE AUDITOR

Thomas Troutman, CPA, CIA, CGFM

Jill Bodnar, Secretary

AUDIT MANAGERS

Daniel Altobelli, CPA, CISA, CEH
Robert F. Gatti, CPA
Brian Klingele, MS, CIA, CGAP
Kenneth Kramli, CPA
Anna Lorenc
Linda Maher, CGFM
Kristen Menegus, CGAP
Charles Y. Paslawsky, MAccy
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
Luz Dow, CPA
Sean F. Duffy
Nikki Farrell, CICA
Lorien Flannery, MAccy
Eric Fonseca
Rene Gervasoni
Kathleen Gorman
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Vishal P. Jhaveri, MBA, CPA
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Joshua Mastro, CFE
Richard J. McHale
Smaragda Ng, MBA
Stacey O'Brien, MBA, CPA
John R. Pullen
Michelle Quinones
Robert Rizzo, CPA
Nicole Sansone, CFE, CGAP
Brian K. Sherfesee
Hiral Singh, MBA, CPA
Jesskim So
Michael A. Tantum, MBA
Irene Torunoglu, MAccy, 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
Denise Damico, MBA
Devan Davies
Michael Dintrone
Jennifer Dougherty, CISA
Meghan Ellis
Helene Evich, CPA
Tanja Fessler
Daniel Garcia
Timothy R. Garcia
Richard Grahovac, CFE, CGFM
DeNeasha Gregory
Iryna Gryniv, MAccy
Rachel A. Haines
Kevin Hall
Kenneth P. Henderson, CPA
Kevin Holt, CGFM
Amanda Ireland
Michael Kiyaga, CPA
Kirill Kornoukh, CPA
Taylor Leavy, CPA
Douglass W. MacArthur
Matthew T. McCue
David Miller
Daniel Mostrangeli, MS
John O'Meara, CPA, CFE
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Michael Salberta
Arashdip Singh
David Sohn, CFE
Meghan Stillwell
Justin Toldt, MS, CPA
Shrushti Trivedi, CICA
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 seven audits issued during the past year that contained cost savings, improper payments, and revenue enhancements totaling $31.3 million. Information on these reports is presented on pages 14 through 44. Highlights of eight reports containing other significant findings and observations are presented on pages 45 through 73. 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 2020 are identified on a schedule on page 74 and are available for review on our website.

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 PHARMACY PROGRAM

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 federal government requires states to provide a basic set of medical services to individuals eligible for Medicaid. Providing pharmaceutical services to Medicaid beneficiaries is one of the additional medical services that New Jersey has elected to provide. Beneficiaries who receive these services, are either enrolled in the fee-for-service (FFS) program or with a managed care organization (MCO).

FFS is the traditional health insurance program, in which healthcare providers bill Medicaid directly for their services and the FFS claims are processed through the division's fiscal agent that manages the FFS pharmacy program. FFS beneficiaries include those new to the program and not yet enrolled into a MCO, those in long-term care who are not enrolled in Managed Long Term Services and Supports, those in state institutions (psychiatric hospitals and developmental disability facilities), and those residing in Veterans Administration Homes.

Under managed care, beneficiaries enroll in one of the five MCOs contracted with the Division of Medical Assistance and Health Services (division) to provide and manage healthcare services. For these beneficiaries, the division pays a capitation rate or monthly premium per beneficiary to the MCO in which they are enrolled. The division relies on both the FFS fiscal agent and the MCOs to monitor the Medicaid pharmacy program based on policies and procedures set forth by the division.

Pharmacy claims are initiated at a pharmacy by the pharmacist, who enters the claim detail data into a Point-of-Sale system. That information is then electronically transmitted to the beneficiary's healthcare plan where it goes through claim processing edits to determine whether the claim is approved or denied.

Expired Prescriptions

Prescriptions were dispensed beyond the expiration date of the script.

We analyzed all approved pharmacy claims (excluding long-term care claims) in the Medicaid Shared Data Warehouse (SDW) with service dates from July 1, 2017 through September 26, 2019, for prescriptions dispensed for the first time. Based on our analysis, we found 696 FFS claims totaling $59,000 and 47,467 managed care claims totaling $5.1 million for controlled dangerous substances, where the prescriptions appeared to have been dispensed beyond the expiration date

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
NEW JERSEY FAMILYCARE, MEDICAID PHARMACY PROGRAM (continued)

of the scripts. On average, these prescriptions appeared to have been dispensed 34 days after they had expired for FFS claims and 29 days after they had expired for managed care claims.

For those controlled substances claims identified above, 206 FFS claims totaling $23,000 and 27,700 managed care claims totaling $3.4 million, were for Schedule II drugs. These are considered to have a high potential for abuse, with use potentially leading to severe psychological or physical dependence. As set forth by the New Jersey Administrative Code (N.J.A.C.) 13:45H Controlled Dangerous Substances, and per N.J.A.C. 13:45H-7.5 Manner of Issuance of Prescriptions, "all prescriptions for controlled substances, regardless of schedules, shall be presented to the pharmacist for filling within 30 days after the date when issued except when up to three separate prescriptions for a total of up to a 90-day supply of a Schedule II controlled substance are issued to a patient by a physician." We were unable to determine whether the prescription was to be filled beyond 30 days by reviewing the claim data. This can only be achieved by reviewing the actual prescription submitted by the prescribing provider to the pharmacy. In addition, it is the responsibility of the dispensing pharmacy to comply with these regulations and prevent the medication from being dispensed before it is allowed per the prescription.

In addition, our analysis identified non-controlled substance claims for that same period consisting of 681 FFS claims totaling $48,000 and 1,939 managed care claims totaling $43,000. These claims also appeared to have been dispensed beyond the prescription expiration date. Per N.J.A.C. 13:39-7.3, these claims have a valid prescription date good for one year beyond the date the script was written.

To determine whether the prescriptions were dispensed beyond their expiration date, we sorted the data by healthcare plans and drug schedules and judgmentally selected a sample of 155 controlled and non-controlled substance claims totaling $22,242. Items were selected to ensure the sample represented claims across all healthcare plans and drug schedules. We requested the division and MCOs to review the claims to determine if the prescriptions were dispensed beyond their expiration date. Based on their reviews, it was determined that 113 (73 percent) of the prescriptions totaling $16,174 were dispensed beyond their expiration date. There are no controls or edits in either the FFS or the managed care pharmacy programs that would prevent a claim from being dispensed based on the date the prescription was written. After bringing this to the division's and the FFS fiscal agent's attention, edits are being developed that will monitor dispensing dates of both controlled and non-controlled substances for FFS claims.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
NEW JERSEY FAMILYCARE, MEDICAID PHARMACY PROGRAM (continued)

Excess Accumulation of Medication

The division's monitoring of pharmacy prescriptions to prevent a beneficiary from receiving an excess accumulation of medication needs improvement.

The New Jersey Pharmacy Point of Sale (POS) system, through the use of a refill edit for the FFS and managed care pharmacy programs, will not allow a beneficiary to obtain the next fill until a percentage of the previous fill has been utilized (utilization rate), unless a prescription dosage change or a prior authorization is given. This utilization rate for the FFS pharmacy program is 85 percent, and between 75 to 90 percent for the managed care pharmacy program depending upon which MCO the beneficiary is enrolled in. We noted there is no edit that considers the potential accumulation of medication from previous prescriptions that remain on hand when refilling those prescriptions based on the allowable utilization rate from the prior fill date, or for dosage changes in prescriptions.

For the period from January 1, 2017 through October 2, 2019, we analyzed all pharmacy claims for unit dose drugs (tablets, capsules, pills, etc.). Based on our analysis, we found 258 instances totaling $226,000 for FFS and 35,800 instances totaling $30 million for managed care, where beneficiaries received in excess of a 395-day supply of medication for a one-year period. Of those, 22 FFS instances totaling $2,000 and 2,662 of those managed care instances totaling $3.4 million, were for beneficiaries that received medication containing a controlled substance, which are drugs tightly controlled by the government because they may be abused or cause addiction. On average, the FFS beneficiaries received an extra 22-day supply while the managed care beneficiaries received an extra 28-day supply of medication over the initial 395 day supply allowed in our calculation. We estimate the excess accumulation of medication for these beneficiaries cost the FFS pharmacy program approximately $11,000, while also costing the managed care pharmacy program $1.8 million.

We sorted the data by healthcare plans and drug schedules and judgmentally selected a sample of 135 total instances. Items were selected to ensure the sample was representative across all healthcare plans and drug schedules. We then asked the division and the MCOs to review our sample to determine if the excess supply of medication should have been dispensed to the beneficiaries. Based on their reviews, it was determined that the excess amount of medication should not have been dispensed for 16 (12 percent) of the beneficiaries in question. In addition, the MCOs determined that 87 (64 percent) of the instances were acceptable as they were in compliance with the FFS and MCOs allowable utilization rates, 19 (14 percent) were acceptable due to a dosage change, and the remaining 13 sampled items were accepted for a variety of miscellaneous reasons. Although the majority of the sample items were acceptable, the failure to consider the accumulation of excess medications can result in additional costs to the program and excess controlled substances issued.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
NEW JERSEY FAMILYCARE, MEDICAID PHARMACY PROGRAM (continued)

Utilization Reviews and Quality Management process of MCO Pharmacy Claims

The division needs a Utilization Review and Quality Management process for managed care pharmacy claims.

The Medicaid managed care contract requires that each MCO operate a drug utilization review program that complies with the requirements described in Section 1927 (g) of the Social Security Act. Although both the FFS and managed care pharmacy programs comply with the code, the FFS claims are subject to an additional prospective drug utilization review (PDUR) that differs from the MCOs' reviews. The FFS pharmacy program fiscal agent developed a Utilization Review and Quality Management process that would process managed care pharmacy claims through the same PDUR edits used when processing FFS claims. The purpose of this initiative was to correct managed care claim inefficiencies prior to the division's actuary identifying them. This initiative was never implemented. According to the Utilization Review and Quality Management analysis completed by the division's FFS fiscal agent for the quarter ending June 30, 2016, a $7.7 million reduction in managed care pharmacy claims could have been achieved by the MCOs had the claims been processed using the same PDUR edits as the FFS pharmacy program.

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT
TEMPORARY DISABILITY INSURANCE

Workers' Compensation Claims Reimbursement

The Department of Labor and Workforce Development (DOLWD) Division of Temporary Disability and Family Leave Insurance (division) does not independently verify potential Temporary Disability Insurance cases with Workers' Compensation court filings.

The division does not have adequate controls in place to detect the existence of Temporary Disability Insurance (TDI) claims that are potentially a duplication with Workers' Compensation (WC) benefits. Failure to properly identify claims with the potential for duplicating benefits could lead to a violation of the TDI law and lost reimbursement to the fund.

Per N.J.S.A. 43:21-30(b), an individual is prohibited from collecting both TDI and WC benefits for the same injury over the same time period. However, an individual who is involved in a contested WC claim may receive TDI benefits from the division while awaiting settlement of their WC claim, provided the individual has filed a viable claim petition with the DOLWD's Workers' Compensation Division and has signed an agreement to reimburse the fund for any TDI benefits received. This is intended to prevent an individual from receiving WC benefits and TDI benefits for the same injury over the same time period. However, the division relies solely on individuals to disclose the existence of contested WC cases that are related to TDI claims.

We performed a review of TDI claims where an individual filed a claim without indicating the injury was work related and who also filed a contested WC case. Our review was performed on claims where the injury date was within 10 days of the WC case injury date for the same individual and the WC case was not dismissed. The injury descriptions from both the TDI claim and the WC case were compared, and similarities were judgmentally determined. We determined 273 of 418 claims were from similar injuries, which indicates a potential duplication of benefits. The total calculated amount of TDI benefits paid for the 273 claims was $2,046,434. We provided this information to division personnel for further action.

Workers' Compensation Lien Awards

The division can improve collection efforts on outstanding lien awards.

An individual must indicate on the disability claim application whether or not the injury is work related. When an individual indicates that the injury is work related and follows the steps outlined in the previous finding, the division places a WC lien on the claim to indicate the potential reimbursement of disability benefits. In cases where the contested WC claim is dismissed, the TDI claim is treated like a regular claim with no reimbursement required.

We performed a review of TDI claims with attached WC liens from adjudicated WC cases where an amount was awarded to the fund. We reviewed all 48 claims where reimbursement awards were

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT
TEMPORARY DISABILITY INSURANCE (continued)

outstanding for more than 100 days according to the division's automated system. Our review found that 24 had some payment activity not recorded in the system and the remaining 24 claims, totaling $145,671, had no payment activity.

Further discussion with division personnel revealed the procedures for the handling of outstanding lien awards were not followed because the liens had not been sent to the DOLWD's Benefit Payment Control Unit (BPC) to initiate steps for recovery. Division procedures require outstanding WC lien awards to be sent to the BPC 100 days after adjudication to initiate steps for recovery. Failure to follow this procedure could result in uncollected reimbursements to the fund.

DEPARTMENT OF THE TREASURY
DIVISION OF PURCHASE AND PROPERTY
PROCUREMENT OF INFORMATION TECHNOLOGY CONTRACTS

Observation

Blanket Contract for Computer Equipment, Peripherals, and Related Services

The Division of Purchase and Property (division) takes part in a national cooperative purchasing program between the Western States Contract Alliance, the National Association of State Procurement Officials, the State of Minnesota, and 33 other participating states. Computer equipment, peripherals, and related services purchased under this contract may include desktops, laptops, tablets, servers, storage, and ruggedized devices. As part of this contract, vendors are required to submit quarterly sales reports identifying all products sold. For calendar year 2019, we reviewed quarterly sales reports submitted by four vendors in our population and noted approximately $148.9 million in total sales.

According to Section 2 of the cooperative agreement, vendors shall pay an administrative fee equal to one-tenth of one percent following the end of each calendar quarter, based on the sales of products and services. The agreement allows states to require an additional fee be paid directly to the state based on purchases made by entities within the state. The requirement for this fee would be documented in the participating addendums (PA) for each state. A PA is a written statement of agreement signed by vendors and each participating state that clarifies the operation of the contract and may add other state specific language or other requirements. According to the model PA included in the cooperative agreement, the first item to consider for inclusion in a PA is a state administrative fee.

We reviewed PAs for seven states, including New Jersey. While four states require the vendors to submit an additional one percent administrative fee based on total sales during each quarter, the PA for New Jersey did not require an additional administrative fee to be paid to the state. However, New Jersey's PA does allow the director of the division to amend the contract if it is determined by the director to be in the best interest of the state.

N.J.A.C. 17:12-1.5 requires the division's director to make an assessment from each contract proposal in order to maintain the state's procurement system at a level to meet common industry standards of efficiency. According to the division, user agencies of state contracts pay an assessment of 0.25 percent of total purchases, including users of the aforementioned blanket contract. Based on the $148.9 million in total sales noted above, user agencies should have paid $372,250 in assessments for purchases made under the blanket contract during calendar year 2019. However, during that same period, an administrative fee of one percent would have enhanced revenue by $1.48 million, assuming sales had remained unchanged.

We recognize the division may not want to utilize both methods for the same contract, and charging an administrative fee to vendors may negatively impact pricing structures and other competitive

DEPARTMENT OF THE TREASURY
DIVISION OF PURCHASE AND PROPERTY
PROCUREMENT OF INFORMATION TECHNOLOGY CONTRACTS (continued)

measures negotiated within the contract. However, utilizing an administrative fee charged to vendors may be beneficial in certain instances.

NEW JERSEY TRANSIT CORPORATION
RAIL OPERATIONS

Positive Train Control System

New Jersey Transit (NJT) is behind schedule on its federally required safety system installation and has not collected approximately $9.1 million in contractually allowable liquidated damages as of September 2019.

Per the federal Rail Safety Improvement Act (RSIA) of 2008, all railroads were required to implement Positive Train Control (PTC) by December 31, 2015. PTC uses technology to prevent train-to-train collisions, overspeed derailments, incursions into established work zone limits, and the movement of a train through a main line switch left in the wrong position.

Project Budgeted Costs

In order to comply with the RSIA, NJT awarded two contracts (consultant and contractor). In August 2010, NJT awarded the first contract totaling $3.2 million for program management support (consultant) services. Under the terms of this contract, the consultant was to provide an organizational structure that would address each task in the project required to complete the design, furnishing, construction, testing, and commissioning of the PTC system. The consultant was to establish and institute procedures for controlling the budget, the project schedule, product quality, and expedite the successful completion of the project. In August of 2011, NJT awarded a second contract (contractor) for $151 million for the design, furnishing, construction, testing, and commissioning of the PTC system with anticipated completion of the work by December 15, 2015. Including a budget for other costs (including in-house) of $70 million, the initial budget for this project totaled $225 million.

As of September 30, 2019, the consultant contract has received six approved change orders (see Appendix A) thereby increasing the value of the current contract to $41.4 million of which $37.7 million has been paid. The consultant contract expired on December 31, 2019. On November 6, 2019, NJT signed a contract with a new consultant to provide program management support services. The new consultant contract began on November 6, 2019 with a projected completion date of December 31, 2021 for a total of $47.4 million. The contractor has received eight approved change orders increasing the current value of the contract to $210.3 million of which $149.3 million has been paid. As of September 12, 2019, total budgeted PTC project costs are $500 million including the initial consultant ($41.4 million), contractor ($210.3 million), new consultant ($47.4 million), and other costs totaling $200.9 million (including in-house).

Project Implementation

The federal Positive Train Control Enforcement and Implementation Act of 2015 amended the RSIA of 2008 and extended the deadline by three years to December 31, 2018, with the possibility

NEW JERSEY TRANSIT CORPORATION
RAIL OPERATIONS (continued)

of an “alternative schedule and sequence” with an extended deadline no later than December 31, 2020. On February 22, 2019, the Federal Railroad Administration (FRA) approved NJT’s alternative schedule and sequence for the full implementation of its PTC system by December 31, 2020. The revised schedule reduced the number of trains to be equipped with PTC hardware from 440 to 282 by December 31, 2018. Going forward, NJT plans to equip all 440 trains with PTC hardware by December 31, 2020.

As of September 30, 2019, NJT reported to the FRA that PTC hardware had been installed on 413 of 440 trains. However, due to reported software issues, the system is not yet functional. NJT is continuing with field-testing of the PTC system. NJT is currently behind its implementation schedule and has not started testing the PTC system with ticketed passengers. This demonstration process was planned to begin in July 2019. Despite a number of deadline extensions for implementation and contract change orders, at this time it is debatable whether NJT will meet the PTC full implementation deadline of December 31, 2020

Penalties

NJT has assessed liquidated damages on the contractor of $25,000 per calendar day for the failure to meet certain project milestones by September 2018. As of September 2019, liquidated damages totaled $9.1 million. However, none had been collected as of October 23, 2019.

PEMBERTON TOWNSHIP SCHOOL DISTRICT

Background

Pemberton Township School District (district) is comprised of an early childhood education center, seven elementary schools, two middle schools, and a high school situated over 62 square miles. The district employs approximately 1,150 individuals and serves approximately 4,800 students from Pemberton Township, Pemberton Borough, and Joint Base McGuire-Dix-Lakehurst. Aid to the district from state sources represents a significant portion of its total operating budget. Actual state revenues provided in fiscal year 2018 were approximately $82.5 million and included approximately $30.9 million in adjustment aid. Recent legislation effective for fiscal year 2019 modified the current school funding law and, among other modifications, reduces or eliminates adjustment aid through fiscal year 2025. The district's revised state revenues budgeted for fiscal year 2019 included a reduction of adjustment aid of approximately $2.1 million, and the fiscal year 2020 budget proposes an additional reduction of $2.7 million. It is anticipated that this aid will continue to decline through fiscal year 2025.

Procurement Internal Controls

The district made unnecessary purchases, did not comply with procurement policies, and did not properly limit access to the procurement system.

New Jersey Administrative Code (N.J.A.C.) 6A:23A requires a school district to establish policies and procedures on internal controls and properly segregate duties. Internal controls shall promote operational efficiency and effectiveness, provide reliable financial information, safeguard assets and records, encourage adherence to prescribed policies, and comply with laws and regulations. The district is required to evaluate business processes annually, establish a strong control environment, and segregate duties based on available resources.

We judgmentally sampled 50 non-payroll expenditure transactions to a variety of vendors. This sample totaled approximately $5.6 million in fiscal years 2017, 2018, and 2019 through October 10, 2018. We noted the following.

Unnecessary Purchases

- During school year 2016-2017, the former director of security ordered a security system at a cost of $62,327 without obtaining written bids, which are required for purchases over $40,000. The new director reviewed the contract and the security system and determined it was not compatible or user friendly. The contract was terminated, and the system was never implemented. The district ultimately paid the vendor $20,776.

PEMBERTON TOWNSHIP SCHOOL DISTRICT (continued)

- The district employs a full-time shop foreman, two full-time mechanics, and one part-time mechanic's helper. However, the district outsourced many of its repairs to a local repair shop. In school year 2017-2018, the district spent approximately $84,000 for vehicle repairs that potentially could have been performed in-house such as the replacement of a radiator, oil pan, sensor, oil cooler, and front crank seal. The district did not comply with the Public School Contract Law in selecting the repair shops and did not provide justification as to why the repairs could not be done in-house. There were two garage bays available for vehicle repairs and a third bay that is currently being used for storing janitorial supplies.

- Our sample included an invoice for approximately $2,750 for maintenance supplies. Testing of this invoice revealed that it was part of a $36,000 blanket purchase order created by the maintenance department with a description "yearly PO for supplies." This purchase order was issued without obtaining quotes. The quote threshold applies to purchases of $6,000 or more in the aggregate during the fiscal year. We expanded our testing for this vendor to include school year 2017-2018 and noted the district purchased three intercom systems totaling approximately $3,800 for which we found elsewhere for a total of approximately $2,100. In addition, the district was not able to locate one of the intercom systems that was signed as received, and the remaining two were stored unopened in a closet for over a year.

- In reviewing information technology inventory, we found the district ordered two laptops and accessories but received and was billed for four laptops with accessories totaling approximately $8,200. Instead of returning the extra items, the district decided to keep them, and an additional purchase order was created for approximately $4,100. The extra accessories in this order cost the district $1,713. We reviewed another purchase of laptops and noted each time a laptop is purchased, additional accessories including an extra power adapter, an extra monitor, a wireless keyboard, and a mouse are ordered as a standard package. The Information Technology Director confirmed this was standard and is done without further justification of need.

- In concluding our information technology inventory review, we found the district purchased 2,877 Chromebooks, including 1,300 leased Chromebooks, from school years 2017 through 2020. The total inventory of Chromebooks exceeds the student and teacher population at the high school and middle school by 703 (24 percent). These extra Chromebooks cost approximately $313,000.

- We expanded our original sample and judgmentally sampled 22 expenditure transactions totaling approximately $104,000. In this sample we found payments for rental of medical equipment. During our audit period, the equipment was rented at an annual cost of approximately $3,550, for a total cost to the district of approximately $10,700. We researched and found the equipment could have been purchased for $3,308. The equipment rental preceded the audit period by a number of years. In this instance, purchasing the equipment may have been more cost effective.

PEMBERTON TOWNSHIP SCHOOL DISTRICT (continued)

Proper Approvals

- Per the Public School Contracts Law, N.J.S.A. 18A:18A-4, the Pemberton Township Board of Education (board) board should award a contract for goods or service by resolution when the contract, in the aggregate, exceeds the dictated bid thresholds. We found six contracts totaling approximately $1.9 million, that each exceeded the thresholds, which were not presented to the board for approval.

- The board holds meetings regularly and is provided a list of pending payments for approval. N.J.S.A. 18A:19-1 permits payments to be released after approval by the board. The business office manual states that purchase orders will not be accepted after the due date for the upcoming board meeting. In our sample, we found eight transactions totaling approximately $1,757,000 that were not on the bill approval list provided to the board and were disbursed without board approval. One of these payments for $1.6 million was a partial payment for a window, heating, ventilation, and air conditioning replacement project with a total cost of $3.4 million. Exceptions to the approval process are permitted in emergency situations but are required to be reviewed by the business administrator who shall either approve or disapprove the payment. This payment was not of an emergent nature and was not approved or disapproved by the business administrator. The payment was subsequently presented to the board for approval after we brought it to management's attention. The remaining payments were presented at board meetings subsequent to the disbursement.

- Purchase orders created and approved after goods or services are received are commonly referred to as confirming orders. Since these orders do not follow the proper process, the business office cannot confirm availability of funds, which can create budgeting issues. In our sample, we found nine payment transactions in which purchase orders totaling approximately $1,167,000 were created after the goods or service were received.

- During our review of information technology inventory, we found the district acquired 1,300 Chromebook packages for $738,000 through a three-year lease-purchase agreement, for school year 2019-2020. The lease-purchase agreement stated the district should make the first payment on July 1, 2019. A purchase order was not created in school year 2018-2019 since the purchase was to be applied to the following school year's budget. The employee who organized the agreement received notification the Chromebooks were ready for shipment by April 1, 2019 and arranged for delivery without preparing a purchase order or notifying the business office. This resulted in an unrecorded liability at June 30, 2019.

- Per the district's business manual, purchase orders that have completed the approval process may be increased by up to 10 percent and only require the business administrator's initials. If an approved purchase order needs to be increased beyond 10 percent, a new purchase order must be created. In our sample, we found seven purchase orders that were increased between

PEMBERTON TOWNSHIP SCHOOL DISTRICT (continued)

23 to 190 percent over the original approved amount. As a result, the district disbursed approximately $292,000 in violation of policy thereby resulting in budgeting issues and the need to make transfers totaling approximately $117,000.

Quote and Bid Thresholds

The Public School Contract Law requires a district to obtain quotes for purchases from a single vendor that exceed $6,000 in total for a year. The law also requires a district obtain bids for purchases from a single vendor that exceed $40,000 in total for a year. In our sample, we found three expenditure transactions that each exceeded the quote threshold, but quotes were not obtained. One of the purchases exceeded the threshold by 500 percent. We also found three expenditure transactions that exceeded the bid threshold without obtaining any bids. One of these was for the purchase of the security system mentioned earlier in our report. The remaining two purchase orders were for $60,000 and $77,000.

Accounting System Access

The district uses one computerized system that handles its procurement process, payroll processing, and human resources functions. The district's purchasing agent had access to all aspects of the system including capability to create vendor accounts, create requisitions, approve purchase orders, and generate payment. The purchasing agent was also responsible for setting up each user's access level in the system's procurement module. Once a user's name and password were established, the purchasing agent stored the user name and password documents in a locked cabinet. The system does not prompt users to change their passwords at their initial login. This created a situation where the purchasing agent had the ability to use his own or another user's name and password to log into the system, create requisitions or purchase orders, and make payments. We reviewed the audit trail report for unauthorized activity and found 9 of 18 users, who do not have remote access, logged into the system while marked absent from work. We also reviewed all purchase transactions entered in the system for school year 2018-2019 to determine the timespan between creation and approval of a purchase order and found 30 were completed by two different users in under two minutes, which may indicate password sharing. The segregation of duties issue was brought to the attention of the business administrator who subsequently corrected the purchasing agent's access. The district is establishing new procedures for this function.

PEMBERTON TOWNSHIP SCHOOL DISTRICT (continued)

Payroll and Human Resources

Procedures for calculating payroll, and policies pertaining to attendance and terminations have led to a variety of errors.

Prepaid Salary

Based on past practice, the district prepays employees' biweekly salary. For example, the first pay date for the 2018-19 school year was on July 2, 2018 and covered the period from July 2, 2018 through July 13, 2018. Prepayment of salary increases the risk of payment errors when an employee goes into non-pay status or employment is terminated. This causes additional payroll calculations and time-consuming payroll adjustments.

We selected payments to 24 of 37 employees who were in non-pay status sometime between October 1, 2018 and December 31, 2018 to determine if their paychecks were accurate. The payroll office found and corrected payments totaling approximately $4,500 to nine of the employees. However, we found an additional seven employees were overpaid approximately $9,600, but subsequent payrolls were never adjusted. All of these overpayments resulted because employees who later went into non-pay status were prepaid.

We also selected 25 individuals whose employment was terminated during school years 2016-2017 or 2017-2018 to determine if their final paychecks were accurate. We found 10 employees were overpaid approximately $16,000. These overpayments were caused by prepaying salary to employees whose employment was later terminated. The district did not detect these errors and therefore did not recover the overpayments.

Overpayments

According to district administration, every teacher should have three blocks of classes, one lunch, one preparation period, and potentially one duty. If teachers have more than three blocks of classes, they are entitled to a stipend payment. In our review of teachers' schedules, we found two were each paid for an extra block that was not worked. Total overpayment was approximately $12,000.

Leave Reporting Process

An adequate system of internal controls requires oversight of leave-time reporting to prevent errors and irregularities from occurring and remaining undetected. The district does not have a policy for sick leave reporting requiring supervisory approval or verification in the district's absence management system. When employees call out due to illness, they enter the leave time in the absence management system. If an employee requires a substitute, that option is selected. There are 187 employees in the district with no substitute requirement. This situation creates the ability for these employees to notify their supervisors of their absence and not record the sick leave time

PEMBERTON TOWNSHIP SCHOOL DISTRICT (continued)

in the system. These omissions would not be detected, and the employee's sick leave balance would not be reduced.

Sign In and Out of School Buildings

The district's payroll policy states, "Certain categories of staff members designated by the Superintendent of Schools shall be required to use a time clock or sign in and out of work daily in order to verify days and hours worked." Everyone is to sign in and out except for principals and assistant principals; however, we noted the district does not utilize the sign in and out process to verify time as intended. The majority of the employees at the high school sign-in electronically with their ID badge but do not sign-out electronically or manually; this violates the district policy. We selected sign in and out sheets for two days at seven schools to test for compliance with this policy.

We reviewed electronic logs and the paper sign in and out sheets at the high school for those employees who do not utilize the electronic option. The remaining schools provide pre-printed sign in and out sheets listing employees' names. The sheets were compared to the leave records in the absence management system to confirm those who did not sign-in were not working. Through this comparison, we found 330 of 1,138 instances where the employee did not sign in or out and leave time was not recorded in the absence management system. We also noted the employee lists at the six schools were incomplete and did not include names for 62 people on the pre-printed sheets, therefore these employees did not sign in or out.

Health Benefits

District employees are eligible to receive health benefits. If employees join the district's health benefit plan, they are required to contribute to the cost through payroll deductions and the difference is paid by the district. Upon termination of employment, the human resources office should remove the employee from the health benefits plan timely. The New Jersey Division of Pensions and Benefits administers the health benefit programs and has a timetable with deadlines to submit documentation to terminate health benefits. We selected 15 individuals whose employment was terminated during school years 2016-2017 or 2017-2018 to determine if their health benefits were terminated timely and found one individual whose benefits were not terminated for 11 months after termination. Since the individual was no longer employed, the district paid the full cost of benefits during the period totaling approximately $12,500. We also found an additional four individuals whose benefits were each maintained for an extra month.

PEMBERTON TOWNSHIP SCHOOL DISTRICT (continued)

Revenue

Revenue collection duties are not segregated, accounts are not properly reconciled, and an enterprise fund is not operated as such.

Before and After Care Program Revenue

The district operates before and after school childcare programs at five locations. Parents are responsible for childcare payments, and some payments are subsidized by the Burlington County Community Action Program (BCCAP). We reconciled the district's childcare revenue for one month and found there were subsidy revenues not collected at one school due to a system malfunction. The program employees were aware of the malfunction but did not follow up to have it corrected and did not report the issue to upper management. In addition, the district did not perform a proper reconciliation of the program revenue, and therefore management never detected the uncollected subsidy payments. Our reconciliation and analysis of the records show the district did not collect approximately $20,000 of subsidy payments from September to February for school year 2018-2019.

Revenue Collection Process

The district does not have written revenue collection policies or procedures for before and after care payments. The payment collection office in the before and after care program consists of three employees. However, one employee is responsible for collecting payments, recording them in a ledger, delivering deposits to the bank, and reconciling the bank accounts. The current unsegregated duties creates the possibility that revenue is collected, never deposited to the bank, and not detected by the district.

Out-of-District Revenue

The district educates students from other districts in certain circumstances. Per N.J.S.A. 18A:38-19, whenever the pupils of any school district are attending public school in another district, within or outside the state, the board of education of the receiving district shall determine a tuition rate to be paid by the board of education of the sending district for an amount not in excess of the actual cost per pupil. The tuition contract agreement between districts further states that occupational therapy and physical therapy services may be billed. The district bills student tuition and therapy services to the other districts monthly. We tested all tuition billed to other districts for school year 2017-2018 and found three sending districts were not billed, resulting in lost revenue of approximately $45,000. The sending districts were not billed due to miscommunication within the district. We also found errors that resulted in the district overbilling other districts by approximately $1,700. These errors were not reviewed and proper oversight was not performed, therefore the errors were not previously identified.

PEMBERTON TOWNSHIP SCHOOL DISTRICT (continued)

Enterprise Funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. At the time of our audit, the district maintained three enterprise funds.

We noted the bank account for the before and after care program had an average balance of $307,000 from January 2018 to March 2019. The enterprise fund paid for direct expenses such as payroll and supplies, but costs associated with facility usage, utilities, or administrative expenses were not paid from the fund.

RIDGEFIELD PARK SCHOOL DISTRICT

Tuition Contracts with Little Ferry School District

The Ridgefield Park School District (district) lost $1.7 million because of unfavorably negotiated tuition contracts.

The district provides regular education services to high school students from the Little Ferry School District (Little Ferry). Tuition revenue averaged $4 million for fiscal years 2014 through 2018 for an average of 332 students.

N.J.A.C. 6A:23A-17.1(c) requires that the receiving district obtain certification of its "actual cost per student" for each tuition category for a given year from the Commissioner of Education. Per N.J.A.C. 6A:23A-17.1(f)1, the receiving district and the sending district should also establish by written contractual agreement a tentative tuition charge for budgetary purposes by multiplying the "estimated cost per student" by the "estimated average daily enrollment of students" expected to be received. The "estimated cost per student" should be determined by the receiving district using the appropriate supporting schedule in its annual budget for the ensuing year. In lieu of completing the required form, the receiving district has an option of setting an estimated cost per student using the most recent year's certified cost per student multiplied by one plus the Consumer Price Index (CPI) for the budget year or 2.5 percent, whichever is greater. If more than one fiscal year has elapsed since the most recent cost per student certification, the CPI should be added for each additional year.

If the contractual tentative tuition charge, except for a student enrolled in a special education class, is greater than the actual cost per student (certified rate) multiplied by the actual average daily enrollment, the receiving district is required to return the difference to the sending district in the second school year following the contract year. If the contractual tentative tuition charge, except for a student enrolled in a special education class, is less than the certified rate, the receiving district may charge the sending district all or part of the amount owed by the sending district, to be paid during the second school year following the school year for which the tentative charge was paid.

In July 2013, the district signed a three-year (fiscal year 2014-2016) contract with Little Ferry to provide regular education services to Little Ferry high school students. The district used a standard contract form as required by N.J.A.C. 6A:23A-17.1(f); however, as was the case with multiple prior agreements, the fiscal year 2014-2016 contract included only the tuition rate per student for each fiscal year but did not provide an estimated number of students or total estimated tuition cost. Since this was a three-year contract, the district could not have determined an estimated cost per student for years two and three of the contract using supporting schedules in annual budgets, therefore the district should have used the most current certified rates multiplied by one plus CPI or 2.5 percent, whichever was greater. The most current certified rate for grades 9-12 available at the time of the contract execution was the fiscal year 2012 rate of $11,850 per student (or $12,146.25 with the 2.5% adjustment). The contractual rates were less than the fiscal year 2012 certified rate for all three contract years. The CPI adjustments were also not factored into fiscal

RIDGEFIELD PARK SCHOOL DISTRICT (continued)

year 2017 through fiscal year 2020 contractual rates (fiscal year 2020 contract is still being negotiated).

The fiscal year 2014-2016 contract included two additional provisions. First, an annual cap of $100,000 above or below budget calculated against actual enrollment figures to "protect both parties". This provision was included in every contract since at least fiscal year 2008 (and again in the fiscal year 2018 contract) but protected only Little Ferry as the sending district was already guaranteed a full refund of a tentative tuition overcharge under the administrative code. Because of the cap, the district had to reimburse Little Ferry $58,000 for fiscal year 2018 tuition despite the certified cost per pupil exceeding the contractual rate. The second provision called for exclusion of certified tuition adjustments for all three contract years. This was the first time such a provision was included in a contract since at least fiscal year 2008. It was omitted from the fiscal year 2017 contract but included again in the fiscal year 2018 and fiscal year 2019 contracts. As of August 12, 2019, the fiscal year 2020 contract was still in a negotiation stage because Little Ferry refused to agree to the certified tuition adjustment provision and was challenging the contract term with the Department of Education's Bergen County office.

The following table illustrates contractual rates in comparison to the certified rates. Only fiscal year 2012 and fiscal year 2013 certified rates were less than contractual.

Tuition Rates	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18
Certified Cost per Pupil	$11,483	$12,332	$11,917	$11,976	$11,850	$12,152	$12,446	$12,625	$13,483	$13,203	$14,322
Contractual Rate	$11,200	$11,300	$11,300	$11,700	$11,934	$12,173	$11,500	$11,615	$11,731	$12,625	$13,483
Difference	**$283**	**$1,032**	**$617**	**$276**	**($84)**	**($21)**	**$946**	**$1,010**	**$1,752**	**$578**	**$839**

We compared tuition revenue calculated based on certified rates to the actual tuition revenues received by the district during fiscal year 2014 through fiscal year 2018 and noted the district lost $1.7 million in revenues from Little Ferry by agreeing not to adjust the tentative tuition charges to certified costs as illustrated below.

			Regular Education Program			
Fiscal Year	Contractual Rate	Certified Rate	Number of Students	Total Based on Contractual Rate	Total Based on Certified Rate	Difference
2014	$ 11,500	$ 12,446	327.3	$ 3,763,950	$ 4,073,576	$ 309,626
2015	11,615	12,625	329.3	3,824,820	4,157,413	332,593
2016	11,731	13,483	336.6	3,948,655	4,538,378	589,723
2017	12,625	13,203	337.0	4,254,625	4,449,411	194,786
2018	13,483	14,322	330.6	4,457,480	4,734,853	277,373
					Total	$ 1,704,101

RIDGEFIELD PARK SCHOOL DISTRICT (continued)

Fiscal years 2014-2018 certified cost adjustments of tentative tuition charges for special education students would have resulted in an additional $8,000 in revenue from Little Ferry.

Resource Room

According to N.J.A.C. 6A:23A-17.1(e)8, a receiving district may charge for students receiving services in a resource room an additional amount up to the actual direct instructional cost per student for such services calculated on an hourly basis. New Jersey Department of Education (NJDOE) Policy Bulletin 100-1 issued by the Office of School Facilities and Finance contains an example of the required calculation. Resource room revenue averaged $269,000 for fiscal years 2014 through 2018. In the past, the district calculated the actual resource room cost for the purpose of arriving at the resource room rate. Resource room rates for fiscal year 2018 and fiscal year 2019 contracts were based on an agreed upon arbitrary cost of $5,000 per student. We were unable to calculate the resource room hourly rates and verify the adequacy of rates charged for fiscal years 2014 through 2018 because we were not provided with the information necessary to perform the calculation

Rental of School Facilities

The district entered into a 10-year lease for the rental of two school facilities and obtained a loan for the renovation of one of the facilities without proper approvals.

Lease

On June 10, 2014, the district entered into a 10-year lease, commencing on July 1, 2014. The cost of the 10-year lease was $6.1 million. The lease was for the rental of two church-owned facilities referred to as the “old” and “new” buildings formerly used as parochial elementary schools. The lease gave the district an option to renew the contract for an additional 10 years.

Before the lease was executed, the district engaged a retired school administrator to perform a demographic study for the district at a cost of $5,300. The demographic report, issued in May 2014, projected an increase of 213 students over a five-year period. The number of students during fiscal year 2019 was actually 125 less than the number of students during fiscal year 2014. A company specializing in school demographic studies, charged the district $2,500 for a similar report three years later.

According to N.J.A.C. 6A:26-10.11(a), leases in excess of five years require a board of education to conduct a minimum of one public hearing prior to the adoption of a resolution, and the public hearing should be published not less than seven days prior to the hearing in at least one newspaper. There is no record that notice was published prior to the April 30, 2014 or June 25, 2014 board meetings when resolutions concerning the lease were voted upon. N.J.A.C. 6A:26-10.11(b) requires that the public hearing should provide taxpayers and other interested persons an

RIDGEFIELD PARK SCHOOL DISTRICT (continued)

opportunity to present to the district questions or other commentary with respect to the proposed lease, the estimated cost, and the proposed funding method. The contract was signed 14 days before the second board meeting approving the lease. In addition, any lease in excess of five years shall be approved by the Commissioner of Education and the Local Finance Board in the Department of Community Affairs (DCA) as required by N.J.S.A. 18A:20-4.2(e)(4). The lease was approved by the NJDOE on November 13, 2015, over a year after the lease was signed. The lease was not presented to the DCA for approval.

Procurement Issues

After basic maintenance work (painting, cleaning, etc.) was completed during the summer of 2014, the district started utilizing the "new" building in September 2014. To furnish the facility, in September 2014 and October 2014, the district purchased $33,900 worth of furniture from a local vendor, a relative of one of the district administrators at the time. The district issued three purchase orders for the purchases and allegedly obtained three sets of quotes from three different "vendors" including the selected vendor. Upon closer examination, we determined the following:

- All quotes, including those from the selected vendor, appeared to have the same format.
- The quotes submitted by two other "vendors" were both dated August 12, 2014.
- The quotes from the selected vendor and the second vendor had the same fax number listed. The address and the phone number listed for the second vendor were the same as another company owned by the selected vendor.
- The quotes from the third vendor included the home address of an individual who worked for the selected vendor. The quotes also included two different area codes for the same phone number (one is the area code for the state of Massachusetts).
- We were unable to find any evidence proving the existence of the other two vendors.

The district purchased an additional $58,000 of furniture from the selected vendor utilizing a loan from the church. There were no quotes/bids obtained for this purchase as required by N.J.S.A. 18A:18A-3. Payments included a $5,000 charge for transportation. The vendor's business address was 5.7 miles from the leased buildings and the warehouse used by the owner is located 0.6 mile from the leased facilities.

Loan

The "old" building required extensive renovation before the district started utilizing it in September 2015. According to N.J.A.C. 6A:26-3.11, capital projects shall be reviewed by the NJDOE to determine whether the facility, if it is to house students, conforms to educational

RIDGEFIELD PARK SCHOOL DISTRICT (continued)

adequacy requirements per N.J.A.C. 6A:26-5.2. The "old" building was occupied by students before capital project approval was granted by the NJDOE on November 9, 2015. Per the NJDOE, the district could advance the project, which was already completed, subject to the DCA review for Uniform Construction Code compliance. The project was not approved by the DCA and all permits from the local building department were obtained after the fact.

The district renovated the building at its own expense using funds borrowed from the archdiocese. On November 10, 2014, the Interim Superintendent sent a letter to the church which was a confirmation of his discussion that morning with a representative of the church. The letter stated that in order to bring the "old" building up to code, an update to the electrical and ventilation system, replacement of staircases, and various other projects were needed to receive NJDOE approval. The district's supervisor of buildings and grounds estimated the project would cost in excess of $500,000. The letter further stated the archdiocese agreed to use only vendors approved by the district, contract directly with those vendors, and the district would pay for the entire project plus negotiated interest based on the five-year term. We noted there was another version of this letter estimating the project cost at $250,000. According to the district's supervisor of buildings and grounds, he had not been asked to provide an estimate for these letters. The emails exchanged between the district and the church showed the estimate was prepared on November 19, 2014 and estimated the renovation costs to be $750,000. This ultimately became the amount of the "line of credit" from the archdiocese.

The loan was not approved by the board nor was there a formal/legal loan document. In addition to the aforementioned letter, the only other loan related document was a July 24, 2015 letter from the church to the Assistant Superintendent setting the total amount of the loan at $607,000 to be paid over the course of five years beginning in the third year of the lease. Various November 2015 emails between the church and the former Business Administrator established the final amount to be repaid to the church at $629,754. All payments to the vendors had been made by the church prior to the July 24, 2015 letter to the Assistant Superintendent.

According to the district, vendors for the renovation project were mostly selected from a list of qualified vendors provided by a cooperative procurement management provider contracted by the district; however, 18 of 22 vendors used could not be traced to the cooperative procurement management provider's qualified primary vendor list or to state contracts. Two vendors, according to the district, were personally selected by the former administrator. The district was also given the church's credit card number. Nearly $36,000 in payments were made with the credit card. The former administrator admitted the above vendor selection and payment arrangement process was set in place to circumvent statutory procurement requirements and to expedite the process.

Settlement

In July 2016, the district engaged a legal counsel to review matters concerning the lease. In the letter dated July 12, 2016, the legal counsel concluded that due to the non-compliance with the

RIDGEFIELD PARK SCHOOL DISTRICT (continued)

administrative code and statute, the lease was unlawfully executed and should be amended and restated. Ultimately, the district decided it could accommodate the students being schooled at the church facilities within the existing schools and terminated the lease.

After the district informed the church that it would terminate the lease, the church filed a complaint on August 24, 2017 with the Superior Court of New Jersey seeking a declaratory judgement confirming the enforceability of the lease as well as ejectment of the district from the leased premises. In addition, the church sought to recover money it advanced the district via the loan.

In March 2018, the following settlement was reached between the district and the church:

- The district agreed to pay the church $400,000 in complete settlement of the lawsuit and all obligations under the lease (the check was issued on March 6, 2018).

- The church agreed the district could occupy the premises until June 30, 2018.

- The district agreed to leave behind all electronic, dry erase boards and the computers attached to the electronic boards. The smart boards were purchased in March 2015 and April 2015 for approximately $85,000.

- The district was to remove all window air conditioners but leave the wall-installed ones.

The district agreed to fix two bathrooms identified by the church and any damage caused before the district vacated the premises.

There was no district or church prepared inventory documenting ownership of items. When the district began moving-out in June 2018, the items to be removed by the district were labeled based on individual recollections of district and church employees.

Ultimately, the district paid approximately $2.7 million to the church during the four years of the contract. The district completed an elementary school conversion project creating additional classrooms in the existing schools at the cost of nearly $1.2 million and currently all students are accommodated within the existing district schools.

Payroll and Personnel

Payments to employees should be in accordance with governing statutes or employee contracts.

Payroll expenditures for fiscal years 2016-2018 averaged $23.5 million for an average of 432 full-time, part-time, and substitute employees. During our review of payroll expenditures, we noted the following:

RIDGEFIELD PARK SCHOOL DISTRICT (continued)

- In June 2018 and August 2018, a retired employee was paid a total of $16,883.70 for unused vacation leave the employee was not entitled to receive. The district attempted to recover the payment after we brought it to management's attention

- During fiscal year 2016, the board approved salary adjustments for two of nine administrators exceeding the contractual three-percent raise. By the time both individuals retired (December 2015 and December 2017), the compounded effect of the raise was $7,733 in additional compensation the administrators should have not received. One of the administrators was a relative of a board member who voted to approve his salary.

- We did not receive documentation to support a stipend totaling $1,925 paid to an employee for teaching a sixth-period.

- An employee received a health benefits opt-out payment for family coverage when the employee was only eligible to receive an opt-out payment for single coverage. The overpayment was $500.

- The accuracy of the busing overtime rate paid could not be verified because it was not contractually defined or board-approved. There are no written contracts defining compensation and benefits for transportation staff. These employees included 3 full-time bus drivers, 10 part-time bus drivers, and 10 bus aides.

Health Benefits

Monthly billings for health benefits are not reviewed timely to verify enrollment eligibility.

The district provides health (including prescription) and dental coverage to its eligible employees and their dependents through the State Health Benefits Program and one private dental insurance company. The district is required to notify plan administrators of any changes in coverage due to hiring, terminations, or changes in coverage status. We compared selected July 2015 through September 2018 billing lists to the district payroll check registers and found the following:

- Four former employees and one employee on leave without pay were not removed from medical coverage for periods of time ranging from 3 to 13 months after separation or leave without pay. As of June 30, 2018 the noted errors amounted to $42,283 in premiums.

- Two former employees and two employees on leave without pay were not removed from dental benefits for periods of time ranging from 20 to 28 months. As of June 1, 2019 the errors amounted to $8,837 in premiums.

- The district receives monthly itemized bills but only reviews them every six months.

RIDGEFIELD PARK SCHOOL DISTRICT (continued)

Procurement

The district's procurement process needs to be strengthened.

The purpose of internal control is to provide adequate checks and balances to ensure financial transactions are properly authorized and recorded and to provide a means to safeguard assets. An individual responsible for processing purchases was able to create purchase orders, process payments, enter vendors into the computerized accounting system, and print checks. Failure to segregate these duties increase the risk of unauthorized transactions and decreases the ability to detect errors timely. We judgmentally selected 54 payments based on dollar amount and/or vendor name for testing totaling $247,000 and noted non-compliance with N.J.S.A. 18A:18A (Public School Contracts Law) and district policies, including purchase orders created after the date of service, publicly advertised bids or competitive quotes not obtained when required, transactions not supported by proper documentation such as a purchase order, invoice or written agreement, and business registrations not obtained from the vendors.

The district participates in a cooperative procurement management program. At the beginning of each fiscal year, the board approves a list of vendors. We traced all 74 vendors approved during the July 23, 2018 board meeting to the database of vendors selected and approved by the cooperative procurement program and found that 9 were not in the database. One of the nine vendors was paid a total of $38,000 without obtaining the required quotes. There was also a list of 21 non-cooperative skilled trade vendors (including 4 state vendors) approved during the board meeting. There was no evidence that 17 vendors were properly selected. The district paid a total of $111,500 ranging between $690 and $64,000 to 10 of the 17 vendors with no evidence that proper quotes/bids were obtained.

We also noted, the same retired administrator who prepared demographic studies for the district (see Rental of School Facilities - *Lease)* was engaged during 2015 to assist in the review of the Business Office operations and was paid $10,000 for a 20-page report. The report included vague recommendations such as: "Meet individually and collectively with the Central Office team to get an assessment of the current perception of the Business Office...", "Understand the "expectations" of you and your position…", "Assume a more active leadership role…", "Take control of your own destiny. Don't wait for things to happen", etc.

ROWAN UNIVERSITY

Background

Rowan University (university) has undergone a period of substantial growth over the past decade. In 2012, the university opened the Cooper Medical School of Rowan University. One year later, the New Jersey Medical and Health Sciences Restructuring Act took effect, which officially designated the university as a public research institution and transferred the University of Medicine and Dentistry of New Jersey, School of Osteopathic Medicine to the university. Full-time equivalent student enrollment has grown by 65 percent from 10,229 in fiscal year 2012 to 16,844 in fiscal year 2018. The university's research portfolio has increased during this period as well, with external awards for research increasing from $3.1 million in fiscal year 2011 to $59.3 million in fiscal year 2019.

Employee Health and Dental Benefits

Controls over employee health and dental benefits should be strengthened to ensure only eligible employees are enrolled, enrollment changes are processed timely, and required employee contributions are collected.

Full-time employees of the university are eligible to participate in the state's Division of Pensions and Benefits, State Health Benefits Program (SHBP) for health and dental benefits. Financing for the premiums is provided to the SHBP through state appropriations and offset by required employee contributions. The SHBP relies on the university to ensure that only eligible employees are enrolled and to collect the required employee contributions. Certain part-time employees are eligible to enroll in the SHBP provided they pay the full cost of their coverage.

We compared a December 2018 report from the SHBP listing all individuals enrolled in health and dental benefits to the university's payroll records during the same time period and identified individuals who were enrolled in health and dental coverage but did not make their required contributions toward coverage.

We identified 20 individuals who were erroneously enrolled in health benefits. Nine had separated from employment with the university, four moved from a full-time position to a part-time position and were no longer contributing toward their coverage, four should have had their coverage terminated due to nonpayment of premiums during an unpaid leave of absence, and three were enrolled without any payroll deductions for health coverage. Premiums for the period these individuals were enrolled in error were $375,164 during our audit period.

We also identified 27 individuals who were erroneously enrolled in dental benefits. This included nine individuals who had separated from employment with the university, five who had elected to waive coverage but did not have their coverage terminated, five who moved from full-time to part-time positions and were no longer contributing toward their coverage, three whose coverage should have been terminated due to nonpayment of premiums during an unpaid leave of absence, and five

ROWAN UNIVERSITY (continued)

who were enrolled without any payroll deductions for dental coverage. Premiums for the period these individuals were enrolled in error were $20,404 during our audit period.

Additionally, we identified ten employees who were contributing toward their coverage while on unpaid leaves of absence. We reviewed support documentation from the human resources office and payroll records and found that the university failed to fully recover the required employee contributions from eight of these ten individuals during their leaves of absence. Total outstanding contributions for these individuals were $3,124.

The university follows the SHBP guidelines but does not have written procedures for the cancellation of benefits, processing of changes, and collection of employee contributions during unpaid leave of absence. The university does not verify changes took effect after processing and does not review monthly SHBP reports of enrolled individuals for accuracy. The failure to process these changes to employee benefits in a timely manner increases costs to the SHBP for administrative fees and claims paid on behalf of ineligible individuals.

Dependent Scholarships

Controls over the approval of dependent scholarships should be strengthened.

Dependents of full-time employees with a minimum of one year of service can qualify for dependent scholarships if they meet certain eligibility requirements. Per university policy, the dependent must be a declared dependent on the employee’s tax return and must maintain a minimum cumulative grade point average (GPA) of 2.5 to be eligible. If a tax return cannot be provided, university procedures permit students to receive the dependent scholarship provided they are a dependent on the employee’s health benefits plan. Should a student’s cumulative GPA drop below 2.5, the student is permitted a one-semester grace period affording them the opportunity to raise their cumulative GPA to 2.5 or above. Applications for the dependent scholarship are submitted online and processed by the university’s human resources office.

The university awarded 195 students with dependent scholarships totaling $957,911 for the fall 2018 semester. We randomly sampled 30 students receiving dependent scholarships totaling $149,470 to verify eligibility. We found the university’s formal written procedures for awarding dependent scholarships were not always followed resulting in the approval of dependent scholarships for ineligible students.

- Two students were awarded dependent scholarships in error. One was not a dependent of an employee, and the other failed to maintain a minimum cumulative GPA of 2.5 beyond the grace period.

- We could not verify dependent status for three students in our sample as there was no tax return available for inspection, nor were the students listed as dependents on a university employee’s health benefits plan.

ROWAN UNIVERSITY (continued)

- Applications were not available for inspection for 3 of the 30 students in our sample.

- Two students finished the semester with cumulative GPAs below 2.5. Although they qualified during the semester we tested, we noted they were subsequently awarded dependent scholarships in error after failing to increase their cumulative GPAs to 2.5 or above during their grace periods.

Internal Controls – Purchase Orders

Controls over the purchase order process need to be strengthened.

Excluding capital projects and grant funds, the university spent approximately $79.6 million through the purchase order process between July 1, 2017 and December 31, 2018. We sampled 30 invoices totaling $186,869 for goods and services procured through the use of purchase orders. This sample was based on various risk factors and was selected to ensure an equal distribution of invoices were selected for purchase orders that were below the quote threshold, between the quote and bid thresholds, and above the bid threshold. Our testing disclosed issues regarding segregation of duties, confirming orders, and contracts.

Segregation of Duties

A strong system of internal controls should include segregation of duties between the purchasing and receiving functions to mitigate the risk of unnecessary or improper purchases; however, university policy does not require independent verification for the receipt of goods and services. To make payment, the accounts payable unit relies on a system acknowledgment of receipt completed by an individual in the department which made the purchase. Copies of packing slips or service tickets are not forwarded to the accounts payable unit as independent verification of receipt. We found that the same individual who initiated a transaction also confirmed receipt for 21 of the 29 invoices tested (72 percent). Additionally, we noted that supervisory approval is not required for purchase requisitions, therefore no documentary evidence was available indicating anyone within the department had reviewed the transaction other than the individual submitting the requisition.

Confirming Orders

A confirming order is a purchase of goods or services before a purchase order has been authorized. The use of confirming orders is a violation of university policy which can result in unrecorded liabilities and the overspending of budgeted funds. Of the 30 invoices we tested, 8 were confirming orders (27 percent) totaling $7,501. We noted that a professional services invoice from April 2017 did not have an authorized purchase order until September 2017. This invoice was one of a batch of 102 invoices totaling $124,425 charged against this purchase order. A cursory review of six other invoices totaling $35,948 from this purchase order found that all of the charges were related to services rendered in the prior fiscal year. The budget account from which these invoices were

ROWAN UNIVERSITY (continued)

charged would have required transfers from other accounts had these invoices been recorded in the appropriate fiscal year.

The university's accounts payable policy requests that vendors send invoices directly to a designated accounts payable inbox; however, 16 of 29 invoices in our sample were received by the department which made the purchase and subsequently forwarded to the accounts payable unit. The flow of invoices through the departments prior to submission to the accounts payable unit reduces the likelihood that unauthorized purchases are identified in a timely manner.

Contracts

Two invoices we tested were for laboratory gases that were purchased on a state contract using standing orders; however, we were unable to match the invoices to the terms of the contract and the purchasing unit was unable to verify that contract pricing was received. The purchasing unit informed us that it is the responsibility of the department making the purchase request to verify proper pricing when standing orders are used but that it had recently come to its attention that not all departments were doing this. Additionally, we noted an invoice in our sample for sprinkler inspection services was in agreement with contract terms; however, the university could not verify that the aggregate amount paid for these services was in agreement with contract terms. Payments for these inspection services were not centrally monitored for contract compliance but spread across various departments and purchase orders. The absence of a match between invoiced amounts and contract terms could result in the university paying more than the agreed upon price for goods and services.

We identified two invoices in our sample from the same vendor for which proper competitive bidding was not done. These purchases were made under the terms of a prior agreement, which had expired, between the university and vendor. The university could have continued utilizing the same vendor under the terms of an existing state contract for these services; otherwise, it should have awarded a new contract through competitive bidding and a resolution by the Board of Trustees.

The university was unable to provide the applicable preventative maintenance contract for an invoice from our testing. We were provided with a copy of a contract extension for these services; however, the original contract detailing the work to be performed was not made available for inspection. It was noted that employees in various departments occasionally enter into contracts without authorization and those contracts are not always forwarded to the purchasing unit for review, which could result in contract terms less favorable to the university than if they were negotiated by the purchasing unit.

ROWAN UNIVERSITY (continued)

Relocation Reimbursements

Controls over the processing of relocation reimbursements should be strengthened to ensure only allowable expenses are reimbursed.

New faculty, professional or executive, managerial, and professional staff members, who accept employment with Rowan University, may be eligible to receive reimbursement for relocation expenses. The university reimbursed 46 employees a total of $201,067 for relocation expenses from January 2018 through January 2019. We tested a random sample of ten relocation reimbursements from this period totaling $69,624 for compliance with university policy and procedures. Five of the ten employee reimbursements tested included non-reimbursable items totaling $9,189 as noted below.

- One employee was reimbursed $3,885 for the rental of a home for his family for a period of one and a half months prior to relocation. Per policy, the university will only reimburse for lodging in transit.

- One employee was reimbursed $5,182 for moving items from an address other than the home address. University policy states the moving of household effects from an address other than the home address is non-reimbursable.

- Three employees received reimbursements for non-reimbursable items totaling a combined $122. These reimbursements included unpacking fees, round-trip mileage reimbursement, and food during the move. Per current practice, food is only reimbursable during house hunting trips and not during the move.

BOARD OF PUBLIC UTILITIES

Time Reporting

Not all Board of Public Utilities (board) employees submitted their timesheets timely.

Timesheets

During calendar year 2018, the board's payroll totaled $18.5 million for approximately 221 employees. For proper internal controls, in order to substantiate employee earnings, all employee bi-weekly timesheets should be electronically submitted and approved by each employee's supervisor utilizing the Electronic Cost Accounting & Timesheet System (eCATS) prior to the issuance of the payroll. The board passes these payroll costs to utility companies through general assessments which are ultimately passed on to the ratepayers. It is the responsibility of the employee's supervisor to ensure all timesheets are completed. However, if an employee's timesheet is not completed (not submitted and approved), an employee is paid the full 10 days regardless, by default. As depicted in the chart below, our timesheet analysis of 13 consecutive bi-weekly pay periods disclosed, on average, 95 employees (44 percent), who collected a total of 218 paychecks, did not submit completed timesheets timely. There is a risk that the longer timesheets are not completed, actual leave days taken by employees may not be recorded and employees may be paid for time not worked. We noted one employee whose timesheets were not completed timely for pay periods 4/27/2018 through 12/7/2018 and were submitted up to five months late. They were eventually approved by a supervisor as many as 10 months late, and we noted no leave time was taken. We noted an improvement for the last pay period of 2018 when the default rate decreased to 25 percent. Completed timesheets are due by year-end in order to obtain the subsequent year's annual leave entitlements.

Pay Period Ending	Number of Paychecks	Timesheets Not Completed	Percentage of Timesheets Not Completed
10/12/2018	216	112	52%
10/26/2018	217	117	54%
11/9/2018	220	88	40%
11/23/2018	221	93	42%
12/7/2018	221	113	51%
12/21/2018	221	54	25%
1/4/2019	220	88	40%
1/18/2019	219	81	37%
2/1/2019	218	117	54%
2/15/2019	217	91	42%
3/1/2019	215	114	53%
3/15/2019	215	78	36%
3/29/2019	214	94	44%
Averages	**218**	**95**	**44%**

DEPARTMENT OF ENVIRONMENTAL PROTECTION
DIVISION OF FISH AND WILDLIFE

Procurement

The Department of Environmental Protection (department) did not comply with applicable purchasing regulations.

Internal Controls

We found the purchases made by the department's Division of Fish and Wildlife (division) were closely aligned with its mission. However, we did note that internal controls could be strengthened by updating current internal purchasing policies to require requesting divisions to provide adequate justification for proposed purchases. The department's individual divisions are diverse with many having unique procurement needs. A supervisor within a division would sign off on each purchase request, and the procurement unit relies on these signatures to ensure the purchase is necessary. The procurement unit ensures available funding and processes the transaction. We found some purchases contained documentation supporting the need to procure the goods or service, while some did not. By not requiring this type of documentation, the procurement unit could process potentially unnecessary expenditures.

Delegated Purchase Authority Purchases

Department of the Treasury Circular No. 16-02-DPP (circular) 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 a delegated purchase authority (DPA), and DPA purchases are not to exceed $40,000. At least three telephone quotes are required for DPA 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. Requests to increase the $40,000 DPA limit must be made by the department's Chief Purchasing Officer to the Department of the Treasury, Director of the Division of Purchase and Property (DPP) through the Assistant Director of the Contract Compliance and Audit Unit. 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. Purchases should not be divided by vendor, dollar amount, or items to circumvent the dollar limit imposed by the circular.

We sorted all DPA purchase orders for fiscal years 2015 through 2019 and selected orders greater than $1,000 as our sample population. We then judgmentally selected 25 transactions, totaling $393,400. Our testing noted four instances (16 percent) where there was no vendor invoice. Eleven of the transactions tested were indicated by the division to be sole source, however, all eleven were missing a sole source justification written and signed by the Agency Approval Officer, and ten were missing a sole source certification from the vendor. Of the 14 remaining transactions, we noted 6 (42.8 percent) which did not contain the three quotes required by the circular.

DEPARTMENT OF ENVIRONMENTAL PROTECTION
DIVISION OF FISH AND WILDLIFE (continued)

We noted an instance where the DPP approved an increased DPA for the division to outfit a mobile outreach trailer (pictured below) at an amount not to exceed $200,000. Within the beginning stages of the build, however, the division realized that $200,000 was an insufficient amount to build a trailer that met the intentions of the program and requested an additional $40,000. This additional cost was approved by the division director, but the division failed to obtain approval from DPP. The division circumvented DPA controls by splitting the purchase in order to process the payment in the accounting system. In addition, when the Request for Proposal (RFP) was issued for this build, the division included the anticipated cost of the trailer within the RFP. This practice is not in the best interest of the state, as prospective vendors may increase a potentially lower bid to meet the expected cost of the project as listed by the division.

Information Technology – General Controls

Application-level general controls for the Integrated Electronic Licensing System need strengthening and are lacking pertinent documentation.

General controls are the policies and procedures that apply to all or a large segment of an entity's information systems and help ensure their proper operation. Examples of primary objectives for general controls are to safeguard data, protect business process application programs, and ensure continued computer operations in case of unexpected interruptions. During the audit, the division

DEPARTMENT OF ENVIRONMENTAL PROTECTION
DIVISION OF FISH AND WILDLIFE (continued)

utilized licensing software called the Integrated Electronic Licensing System (IELS) to issue hunting and fishing licenses (privileges) throughout the state. The system was implemented in 2006 and is no longer supported by the vendor. A Request for Proposal was issued in January 2018, and the division implemented its new system for processing its various privileges in October 2019. We noted the following IELS general controls need strengthening or are lacking pertinent documentation.

Access Request Forms

The New Jersey Office of Information Technology's Statewide Information System Manual (SISM) recommends agencies establish and document formal account creation and registration processes including a written or electronic request from an appropriate authorized manager. Currently, IELS user access is authorized by the project manager approving a prospective user's email request. System access is then authorized based upon the user's job description/function/role and the minimum amount of privilege necessary for the user's proper job function/duties/requirements is awarded. The formal access request form should include requests for specific system activities with justification, which would eliminate the project manager from having to choose activity access levels based on job function.

User Identification

The SISM recommends agencies remove disabled user accounts within 90 days, and the use of group accounts and shared ids is generally prohibited. The IELS is unique in that when a user account is deleted, all work performed by that user is also removed. Therefore, the division's practice is to disable user accounts which are no longer required in an attempt to avoid losing critical information. In addition, active accounts that have no activity associated with them (inactive) increase the risk that an unauthorized user could exploit vulnerabilities within IELS thereby allowing for a potential disruption of service or breach of sensitive data.

We obtained a download of 133 IELS administrative user IDs and noted 41 which should have been removed. These accounts included 3 users with multiple IDs, 16 locked out accounts, 9 expired accounts, 2 reset accounts, and 7 generic or test accounts. These accounts belong to vendors who had obtained access to production, users who had forgotten their passwords and obtained new access, and previously utilized group accounts. One user was a liaison with the vendor and was supposed to only have access to the test environment but was also given access to production. The test accounts were created to test certain processes within IELS; however, the IDs were never removed upon conclusion of the test. The principle of segregation of duties should be adhered to when assigning functions, tasks, and responsibilities for critical business processes. Per the SISM, one specific concept of segregation of duties is to ensure that test functions are performed separately from production and development functions. Application development personnel should not have access to production data or systems-level technology. We also noted

12 additional user IDs which were associated with employees who no longer work for the department. If a user resigns or is terminated, the SISM requires the user's access be revoked (disabled) at the time the user's employment status is terminated.

Lack of Policy and Procedures

We found the division does not have an application security plan that assesses risk or details critical procedures, processes, and policies necessary for the automated issuance of hunting and fishing licenses. We also found there are no documented policies or procedures requiring annual verification that the level of access to the application for users is appropriate and necessary for their job duties and responsibilities. In order to maintain effective controls over user access to information assets, access privileges granted to users should be reviewed at least every six months. Evidence of account and privilege reviews that document the review occurred, who conducted the review, and what action (if any) was taken should be retained by the division. We also found the division does not have a documented contingency plan in place in the event that it would have to revert to a manual process of issuing licenses. The SISM requires agencies develop, implement, test, and maintain contingency plans to ensure continuity of operations for all information systems that deliver or support essential or critical business functions. Currently, the project manager maintains the majority of system responsibilities, and if the project manager were to be absent for an extended period of time, there are no assigned tasks and associated personnel to continue functionality as intended.

Observation

License and Permit Fees

Historical price sheets provided by the division indicate license and permit fees had increased steadily from 1979 until 2000 including 9 fee changes over the 22- year period. However, there have been no changes to any of these fees since 2000. Fees are set by statute, but changes must first be approved by the Fish and Game Council. The division has not proposed any fee increases to the legislature in over 19 years.

Additionally, there are 23 states which border oceans and bays. We noted most do charge fees ranging from a $1.00 registration fee in Maine to a $48.34 license in California, with an average of $18.56 for all 20 states having a saltwater fishing license. New Jersey is one of only three states in the country, along with New York and Hawaii, that does not require any fee for saltwater anglers to register or obtain a license for coastal fishing. In May 2011, the department implemented the New Jersey Saltwater Recreational Registry Program through Administrative Order No. 2011-05. This voluntary registry is not a license and is intended to help fishermen and policy makers work together to better account for the contributions and impacts of saltwater anglers on ocean ecosystems and coastal economies. We noted that in 2017 the registry contained 164,330

DEPARTMENT OF ENVIRONMENTAL PROTECTION
DIVISION OF FISH AND WILDLIFE (continued)

individuals. The totals from the registry are conservative because the registry is free, is not required, and does not account for out-of-state fishermen or those who pay to fish on party and for-hire fishing vessels.

DEPARTMENT OF HEALTH
DIVISION OF BEHAVIORAL HEALTH SERVICES
ANN KLEIN FORENSIC CENTER

Background

As of January 31, 2020, approximately 55 percent of the Ann Klein Forensic Center (AKFC) staff consisted of Medical Security Officers (MSO); a civil service title unique to AKFC. MSOs are responsible for duties involving the treatment, care, and custody of patients at AKFC. MSO assignments are split into three shifts and cover areas throughout the facility such as living areas of the patients, common spaces, and the rehabilitation area. MSOs can also be assigned to patients for observation and seclusion monitoring on a 1:1 or 2:1 ratio if a patient requires additional security.

Prior to June 2018, whenever the facility was short-staffed, and during particular hours throughout the day, patients were locked in their rooms for operational and administrative reasons. In December 2017, The Joint Commission (TJC), an independent not-for-profit organization, asserted that any time a patient is locked in their room and cannot freely leave, it is considered seclusion. TJC standards require seclusion to be driven by a patient's medical need, with ongoing assessment to determine the need for continued seclusion. In order to maintain TJC accreditation, AKFC hired 83 additional MSOs to cover the staffing requirements needed to end the practice of administrative seclusion. However, this need was underestimated, resulting in staffing shortages and an increase in overtime costs as illustrated in the chart below:

MSO Overtime Wages by Calendar Year:

CY	Regular Pay Periods	Supplemental Pay Periods	Total Overtime:
2017	$5,491,154.99	$259,157.54	$5,750,312.53
2018	$6,849,542.66	$205,333.79	$7,054,876.45
2019	$8,794,939.76	$1,243,981.97	$10,038,921.73

Overtime at AKFC is also affected by various types of leave time including workers compensation, family leave, sick leave, administrative leave, and vacation leave. Overtime is also affected by the number of patients on 1:1 and 2:1 supervision. AKFC management are aware of the issues causing overtime and are taking various steps to decrease the overall overtime at the facility. During our audit, AKFC ultimately hired an additional 28 MSOs (19 hired 8/3/19 and 9 hired 8/31/19) to meet the staffing needs. Overtime has started to decrease as illustrated in the chart below. However, our review found additional controls should be addressed to further decrease overtime costs.

DEPARTMENT OF HEALTH
DIVISION OF BEHAVIORAL HEALTH SERVICES
ANN KLEIN FORENSIC CENTER (continued)

MSO Overtime Wages by Pay Period			
Pay Period	CY18 MSO Overtime Wages	CY19 MSO Overtime Wages	Increase/Decrease in Overtime from CY18 to CY19
18	$280,952.09	$363,363.38	$82,411.29
19	$331,675.39	$361,886.44	$30,211.05
20	$288,192.08	$278,986.08	-$9,206.00
21	$269,176.26	$259,305.71	-$9,870.55
22	$397,548.89	$323,951.30	-$73,597.59
23	$296,529.50	$269,597.05	-$26,932.45
24	$407,931.95	$400,954.27	-$6,977.68
25	$346,650.34	$298,237.74	-$48,412.60
26	$285,752.05	$193,552.45	-$92,199.60

Observation

Potential Overtime Abuse

Employees are taking paid leave time and working overtime on the same day.

AKFC management allows employees to use leave time (i.e., sick, vacation, personal leave) for their regular shift and then work another shift at an overtime rate on the same day. While there may be instances where this would be a needed solution to a difficult staffing coverage scenario, it could be a sign of overtime abuse. We requested any union agreement that allows overtime pay on the same day that leave time is taken, however AKFC could not provide one.

We performed a review of leave time for 366 MSOs employed during calendar year 2018. Our review identified 350 instances in which an MSO used a full day of leave time (8 hours) and on the same day worked an overtime shift. These 350 instances were attributed to 124 of the 366 MSOs.

The financial advantage of this practice from the employee’s perspective is that the employee is paid for the leave time shift at the usual rate for that day and is also paid for the overtime shift at 1.5 times the usual rate of pay on the same day. The financial effect on the state, however, is that not only does the state pay the employee at the overtime rate for the shift worked in addition to the regular rate for the leave time taken, but the state must also pay another employee overtime to cover the shift for which the leave time was used. Preventing employees from working overtime on the same day that a full day of leave is used may reduce overtime costs.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
NEW JERSEY FAMILYCARE, MEDICAID PHARMACY PROGRAM

Doctor Shopping

The Division of Medical Assistance and Health Services' (division) monitoring of managed care pharmacy claims to determine if beneficiaries are using multiple prescribers and/or pharmacies to obtain controlled substances is inadequate.

Doctor shopping is a term referring to a practice in which beneficiaries visit multiple prescribers and/or pharmacies in an attempt to obtain more prescriptions for the same or similar drugs than a single prescriber would prescribe. It could indicate that a beneficiary is seeking drugs for an addiction, to divert for profit, or that the actual beneficiary's Medicaid identification number was stolen. Based on the managed care contract, managed care organizations (MCO) must implement a lock-in program which restricts beneficiaries to a single pharmacy and/or other provider type for a reasonable period of time, if utilization of Medicaid services is at a frequency or amount that is not medically necessary. The MCO contract, when referring to the lock-in criteria, does not require the MCOs to lock-in a beneficiary to a prescribing provider, only to a specific pharmacy. The contract only gives them the option to lock-in to a specific provider. If the MCOs locked in a beneficiary to a specific provider in addition to a specific pharmacy, the risk of abuse of controlled substances could possibly be reduced.

Our analysis of the pharmacy claims data for controlled substances (excluding long-term care claims), found 29,063 managed care beneficiaries who were prescribed the same drug by five or more prescribers for a total of 36,336 instances amounting to $46.9 million for the period of July 1, 2017 through August 31, 2019. See the table below:

	Instances of beneficiaries receiving prescriptions for the same drug from				
Drug Schedule (Controlled Substances)	5 to 10 providers	11 to 15 providers	16 to 20 providers	Over 20 providers	Total
Schedule II - Most Abused					
Number of instances	19,620	1,145	53	8	**20,826**
Amount paid for prescriptions	$27,583,188	$1,848,557	$88,191	$13,500	**$29,533,436**
Schedule III - Less Abused					
Number of instances	2,410	65	1	-	**2,476**
Amount paid for prescriptions	$9,182,281	$411,879	$78	-	**$9,594,238**
Schedule IV - Potential Abuse					
Number of instances	12,090	221	15	2	**12,328**
Amount paid for prescriptions	$2,859,294	$21,843	$1,110	$207	**$2,882,454**
Schedule V - Controlled Sale by Pharmacy Only					
Number of instances	694	12	-	-	**706**
Amount paid for prescriptions	$4,839,431	$42,482	-	-	**$4,881,913**
Total					
Number of Instances	**34,814**	**1,443**	**69**	**10**	**36,336**
Amount paid for prescriptions	**$44,464,194**	**$2,324,761**	**$89,379**	**$13,707**	**$46,892,041**

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
NEW JERSEY FAMILYCARE, MEDICAID PHARMACY PROGRAM (continued)

There may be reasonable explanations for why a beneficiary is receiving prescriptions for the same medication by multiple prescribers. For example, the prescribing providers may all be within the same practice or the beneficiary moved multiple times during the period which required them to see a different provider. Therefore, we are unable to determine from the data analysis, which instances represent actual doctor shopping and which had legitimate explanations.

We judgmentally selected 71 instances totaling $221,800 across the five managed care healthcare plans, where it appeared that the beneficiaries utilized the highest number of prescribers and/or pharmacies to obtain their prescriptions. We then provided our sample to the division and the MCOs in which the beneficiaries were enrolled, to determine if they ever reviewed the beneficiaries for possible doctor shopping and to determine if they suspected that doctor shopping possibly occurred. Based on the reviews by the MCOs, they determined that 53 of the 71 beneficiaries sampled (75 percent) were not reviewed for possible doctor shopping prior to us providing the sample. However, even though they were not reviewed prior to our sample, the MCOs disagreed that doctor shopping took place. Reasons for such disagreement were due to prescribers being in the same practice, beneficiaries having multiple diagnoses that required them to see multiple specialists, or their lock-in program was not satisfied. In addition, 12 instances were noted totaling $36,500, that gives the appearance of possible doctor shopping for different reasons, however further review would be warranted. Three of these instances are provided below.

- A single beneficiary was prescribed Oxycodone-Acetaminophen 5-325 (opioid), a Schedule II drug which is defined by the United States Drug Enforcement Administration “as drugs with a high potential for abuse, with use potentially leading to severe psychological or physical dependence”, 71 times by 47 prescribers in which the beneficiary visited three pharmacies to have those prescriptions dispensed. The MCO agreed that doctor shopping took place and stated that the beneficiary was enrolled in their pharmacy lock-in program and provided notice on November 13, 2015. Even though they were placed in the lock-in program, they continued to see multiple prescribing providers and receive prescriptions.

- A beneficiary was prescribed the drug Lorazepam .5 mg tablet (benzodiazepines), a Schedule IV drug which has low potential for abuse, 30 times by 20 different prescribers and went to five different pharmacies to fill the prescriptions. The MCO agreed that doctor shopping took place and stated that letters were sent out on July 13, 2017 to six of the prescribing providers and again on January 2, 2019 to five other prescribing providers requesting them to review and provide feedback. Even after the letters were sent in 2017, the beneficiary continued to see multiple providers and was not placed in the lock-in program.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
NEW JERSEY FAMILYCARE, MEDICAID PHARMACY PROGRAM (continued)

- A beneficiary was prescribed the drug Endocet 10-325 MG tablet (opioid), a Schedule II drug (high potential for abuse), 29 times by nine different prescribers and went to three different pharmacies to fill the prescriptions. The MCO agreed that the beneficiary exhibited questionable behavior, placed the beneficiary in the lock-in program, and care management attempted to contact the beneficiary without success. This was only done after we had provided the sample to the MCOs.

If the MCOs locked in a beneficiary who utilized multiple prescribers for the same drug, to a specific prescriber, they could possibly reduce the risk of abuse of controlled substances. In addition, two of the five MCOs do not take into consideration the number of prescribers used by a beneficiary for the same drug when determining whether to place the beneficiary into the lock-in program. They only consider the number of pharmacies utilized. Furthermore, we found two of the five MCOs did not have their lock-in program approved by the division as required by the contract.

Social Security Number (SSN) Verification

The division should ensure that all beneficiaries' information is accurate during the social security number validation process prior to acceptance into the Medicaid program.

The division uses county agencies throughout New Jersey and a state contract vendor to cross-reference a beneficiary's Medicaid application paperwork with documentation from the Social Security Administration (SSA), the New Jersey Department of Labor and Workforce Development, and other federal agencies to verify information for Medicaid eligibility. According to federal regulation 42 CFR 435.910 Use of Social Security Number, the agency must verify the SSN furnished by an applicant or beneficiary with SSA to ensure the SSN was issued to that individual, and to determine whether any other SSNs were issued to that individual.

We matched the New Jersey Vital Statistics Death records to the pharmacy claims data in the Medicaid Shared Data Warehouse (SDW) for the period of July 1, 2017 through October 21, 2019 and found 9,530 prescriptions for 265 managed care beneficiaries totaling $799,383, where the SSN matched, however the names did not. We reviewed the verification process for 25 (randomly selected) of the 265 beneficiaries and found that 10 (40 percent) were not verified with SSA. The division's policy is to accept the presence of a social security card in lieu of performing the federally required match. This policy is not in compliance with the federal regulation because it prevents the division from determining if any other SSNs were issued to the individual and increases the risk of pharmacy claims being paid for ineligible beneficiaries.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
NEW JERSEY FAMILYCARE, MEDICAID PHARMACY PROGRAM (continued)

Observation

Expanding Access to the New Jersey Prescription Monitoring Program (NJPMP)

Access to the New Jersey Prescription Monitoring Program could provide the division with an additional monitoring tool for the division to identify potential instances of abuse.

Pursuant to N.J.S.A. 45:1-45, the NJPMP is a statewide database maintained by the Department of Law and Public Safety, Division of Consumer Affairs (DCA) that collects prescription data on Controlled Dangerous Substances (CDS) dispensed in outpatient settings in New Jersey, and by out-of-state pharmacies dispensing into New Jersey. Pharmacies are required to report this data to the NJPMP on a daily basis. Prescriptions must be reported to the database no more than one business day after the date the prescription is dispensed. The information contained in the database can help prescribers and pharmacists provide better care and identify signs that individuals may be abusing or diverting prescription medications for profit. In addition, fifteen other states share data with the NJPMP.

In accordance with DCA regulations, access to the NJPMP is granted to only prescribers, delegates, and pharmacists who are licensed by the State of New Jersey and whose licenses are in good standing with their respective licensing boards and who are directly providing healthcare to the recipients. Before issuing a prescription or dispensing a prescribed drug, qualified prescribers and pharmacists who have registered to use the NJPMP are able to access the NJPMP website and request the CDS prescription history of a patient.

Under current DCA regulations, prescribers, delegates, and pharmacists who are authorized to access the NJPMP must certify before each search that they are seeking data solely for the purpose of providing healthcare to new or current patients. Any prescribers or pharmacists who access or disclose NJPMP information for any purpose other than providing healthcare to a current patient or verifying the NJPMP's record of prescriptions issued by the prescriber, or who allow any other individuals to access the NJPMP using the prescriber's or pharmacist's own access codes, is subject to civil penalties and disciplinary action by the prescriber's or pharmacist's professional licensing board. Therefore, the staff of the state's Medicaid program, the third-party fiscal agent, and the MCOs who administer the states pharmacy program are not authorized access to NJPMP because they do not directly deliver healthcare to the recipients. Access to the NJPMP could be most useful when beneficiaries use cash to purchase prescriptions and bypass the healthcare plans. When cash is used, the drug utilization of beneficiaries cannot be monitored because these pharmacy claims are not processed through the Medicaid program. Therefore, statutory changes that would allow access to the NJPMP by licensed pharmacy staff of the FFS and managed care pharmacy programs could increase the ability of the division to monitor controlled substance utilization by beneficiaries. The data in the NJPMP is also valuable for avoiding therapeutic

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
NEW JERSEY FAMILYCARE, MEDICAID PHARMACY PROGRAM (continued)

duplication and drug conflicts for Medicaid beneficiaries, which cannot be determined if the beneficiary pays cash.

Based on the website for the Office of New Jersey Coordinator for Addiction Responses and Enforcement Strategies, there have been 3,021 suspected overdose deaths and 3,990,809 opioid prescriptions dispensed during the period of January 1, 2019 through December 31, 2019. The NJPMP is an essential tool that could be used by the division to identify possible fraud and help mitigate the abuse and diversion of prescription drugs for profit within the Medicaid program.

DEPARTMENT OF THE TREASURY
DIVISION OF PURCHASE AND PROPERTY
PROCUREMENT OF INFORMATION TECHNOLOGY CONTRACTS

Timely Procurement of Information Technology Contracts

The Division of Purchase and Property (division) can improve its monitoring of the procurement process by establishing benchmarks in order to achieve its primary mission.

The division did not procure some information technology contracts in a timely manner. The division's primary mission, established in the administrative code, is to procure, in a timely and effective manner, contracts for goods and services necessary for the daily operation of state government. However, the division has not established a clear definition of what it considers timely or established performance benchmarks regarding procurement timelines. According to division management, timelines vary with each procurement. In addition, processing benchmarks are not established for each individual contract, or for contracts based on type or any other criterion.

There are twenty possible steps in the procurement process, beginning with central intake of the request initiating the procurement process and ending with contract award. Not all steps are applicable to all contracts, and four steps are completed by parties outside of the division. After the procurement initiation, the using agency and the division agree in writing on the expected dates of completion for each of the remaining steps in the process, and these dates are entered into a database for tracking. The database was implemented approximately in the first quarter of calendar year 2018.

We obtained a report from the database that included the expected and actual dates of completion for each step in the procurement process for 54 of the 134 awarded contracts in our population. The report included an additional 18 contracts that were not part of our population because there were no expenditures during our audit period. Division management stated this report is used to monitor the overall progress and duration of each step in the procurement process in an effort to reduce processing times. Throughout the procurement process, a procurement specialist is to update the database with the date of completion for each procurement step. However, we reviewed the data for the 41 contracts that had been awarded after completing the procurement process and found the data incomplete. Of the 328 possible entries for the steps applicable to each contract, 62 of the expected dates were blank (19 percent), while 138 of the actual dates were blank (42 percent).

The division's report could be a useful tool for management to monitor the progress of an award and evaluate the procurement process if each field is updated timely. However, its usefulness is limited by its incompleteness. In order for management to evaluate the timeliness of a particular step in the procurement process, either overall or for a specific contract, both an expected date and an actual date must be tracked. We found this occurred only 56 percent of the time for the 41 contracts we reviewed. Additionally, in order to evaluate the overall timeliness of each contract,

DEPARTMENT OF THE TREASURY
DIVISION OF PURCHASE AND PROPERTY
PROCUREMENT OF INFORMATION TECHNOLOGY CONTRACTS (continued)

there would have to be an actual central intake date and actual contract award date entered. However, although there was an actual contract award date in all but one instance, an actual central intake date was entered for only 32 percent of the reviewed contracts.

We analyzed the 56 percent of instances of contract steps having both expected and actual dates entered to identify whether the steps were being completed by their expected date. We found that, on average, each step took 76 days longer than expected, with averages ranging from on time to 210 days longer than expected. The steps completed within the division averaged 63 days longer than expected, while the average was 120 days longer for those steps performed by external parties. Tracking both expected and actual dates for all steps would allow management to identify potential problem areas and ascertain whether additional attention is needed on those steps performed by external parties.

We further analyzed the data for all 72 contracts in the division's report to measure the overall duration of the procurement process. We determined there was an average of 496 days from central intake to contract award, ranging from 57 to 1,619 days. Each step in the 20-step process took an average of 33 days, with the most time between sequential steps being 470 days. There was significant variation among the steps in the process. For example, the average number of days between the first two steps in the process was 102, ranging from 0 to 399. The average number of days between steps 16 and 17 was 3, ranging from 0 to 17. The following table illustrates the total duration of the procurement process for these contracts from central intake to contract award.

Number of Days	Number of Contracts	FY 18-20 Expenditures	Estimated Maximum Contract Cost
<100	3	$ 1,949,375	$ 24,900,000
101-200	4	355,474	35,275,000
201-300	7	1,134,799	7,300,000
301-400	6	2,359,765	106,272,574
401-500	15	156,560,822	275,750,000
501-600	10	17,941,753	326,300,000
601-700	11	26,770,919	106,841,246
701-800	3	85,051,752	220,565,000
801-900	11	47,890,202	100,100,000
901-1,600	1	-	500,000
> 1,601	1	255,981	12,500,000
Total	**72**	**$ 340,270,842**	**$ 1,216,303,820**

DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION
TAX AMNESTY PROGRAM

Background

New Jersey P.L. 2018, c. 46 was enacted on July 1, 2018, requiring the Director of the Division of Taxation establish a state tax amnesty period not to exceed 90 days and ending no later than January 15, 2019. The amnesty began on November 15, 2018 and ended on January 15, 2019. Amnesty participants were required to pay the full amount of taxes owed plus 50 percent of the interest, but all penalties, costs of collection, and recovery fees were waived. The amnesty applied to all state tax liabilities due between February 1, 2009 and September 1, 2017. Those under criminal investigation or charge for any state tax matter were not eligible to participate. The tax amnesty legislation appropriated up to $25 million from the proceeds of the amnesty to administer the program and authorized an expedited contract for advertising the program. During the fiscal year 2019 budget process, the amnesty program was projected to generate $200 million in revenue. According to the Division of Taxation (division), the program produced $288.6 million in revenue, as summarized below.

Amnesty Revenue by Tax Type

Sales Tax	$ 96,366,420	33.39%
Corporate Business Tax	79,598,879	27.58%
Gross State Income Tax	64,006,657	22.18%
Estate/Inheritance Tax	15,655,075	5.42%
All Other Taxes	12,190,835	4.22%
Petroleum Gross Receipts Tax	10,247,480	3.55%
Partnership	5,685,048	1.97%
Employer Withholdings Tax	3,446,986	1.19%
S&U Energy	428,137	0.15%
CBT Banking Tax	315,014	0.11%
Nurse Tax	268,830	0.09%
Tobacco Products Tax	191,575	0.07%
Motor Fuels Tax	141,220	0.05%
Hotel Tax	38,675	0.01%
Alcohol Beverage Tax	34,929	0.01%
CBT Financial Tax	3,083	0.00%
Insurance Premiums Tax	-	0.00%
Total	$ 288,618,843	100.00%

DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION
TAX AMNESTY PROGRAM (continued)

Prior to the implementation of the amnesty program, the division identified over 958,000 eligible individuals and businesses with more than 5.7 million previously identified tax items. This includes more than $1.4 billion in known tax deficiencies and over $1.8 billion in estimated tax liabilities. The division sent outreach notices to approximately 748,000 of those eligible with instructions on how to access a web application to make an amnesty payment. Outreach notices were not sent to the remaining 210,000 eligible individuals and businesses for various reasons, such as the division not having a valid current address on file or the taxpayer having filed for bankruptcy.

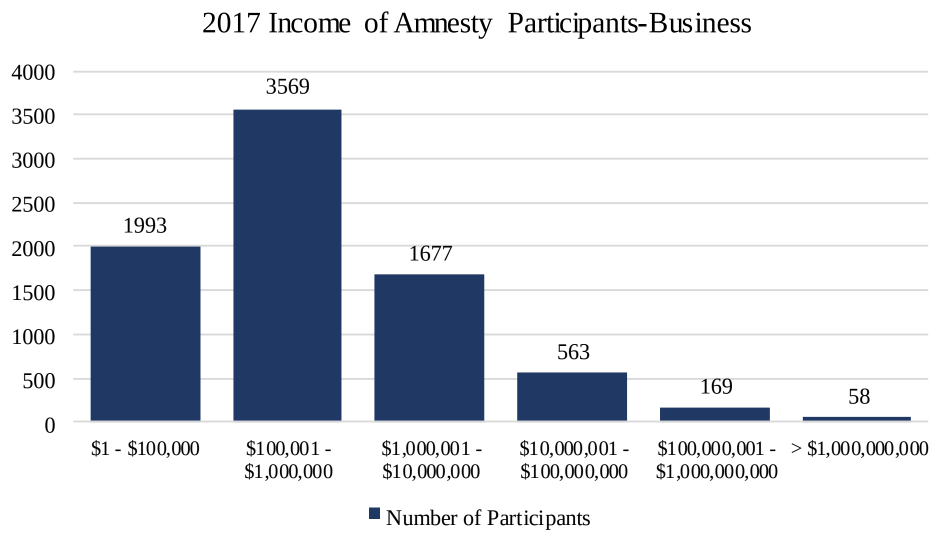
Of the $288.6 million in amnesty payments collected, about 59 percent, $169.4 million, was collected from the previously identified tax items. Another 15 percent was collected from previously unidentified tax items, 18 percent from audit settlements, 5 percent from estates, and 3 percent from other collection sources. The $169.4 million collected from previously identified items represented about five percent of the total amount that was previously identified. The table below summarizes the previously identified tax debt.

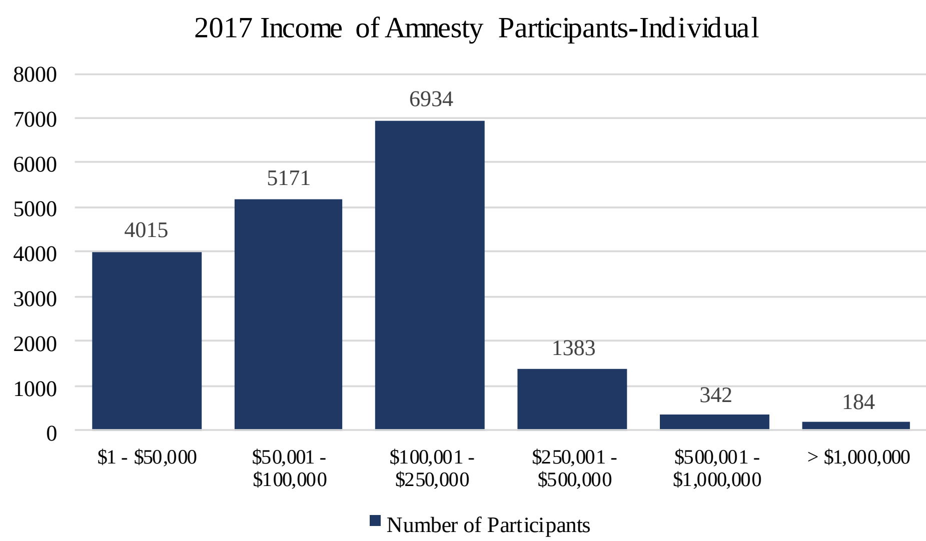
Summary of Previously Identified Tax Items

Number of Previously Identified Taxpayers	958,747
Number of Previously Identified Taxpayers Who Paid	41,740
Percentage of Previously Identified Taxpayers Who Paid	4.4%
Number of Previously Identified Tax Items	5,708,529
Known Tax Deficiencies	605,601
Estimated Tax Liabilities	5,102,928
Number of Payments on Previously Identified Tax Items	76,770
Percentage of Previously Identified Tax Items Paid	1.3%
Total Amount of Previously Identified Tax Items	$ 3,278,663,578
Known Tax Deficiencies	1,448,779,938
Estimated Tax Liabilities	1,829,883,640
Amount Paid on Previously Identified Tax Items	$ 169,437,394
Percentage Paid on Previously Identified Tax Items	5.2%

DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION
TAX AMNESTY PROGRAM (continued)

Of the 41,740 participants who had previously identified known or estimated tax debt, 26,058 had income in 2017, the year prior to the amnesty. The division broadly groups taxpayers into two categories: business and individual. The 2017 income of the businesses that participated in amnesty averaged $86,824,746 and ranged from $4 to $94 billion. The 2017 income of the individuals who participated averaged $160,529 and ranged from $1 to $38 million. The charts below illustrate the 2017 income distribution of participants of the latest amnesty with reported income in 2017.





DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION
TAX AMNESTY PROGRAM (continued)

The total amount of abated penalties and interest for all amnesty payments was not available. However, data provided by the division for the participants with previously known or estimated tax debt included outstanding penalty and interest amounts. Based on this information, $66,909,830 was abated for these 41,740 participants: interest of $33,753,306 and penalties of $33,156,524.

As of December 2019, about 21 percent of these participants (8,782) already have a new outstanding tax item, according to the division. Almost 68,000 tax items totaling $96 million have become due since the end of the tax amnesty's eligibility period and have not been paid.

Observations

System Limitation

We were unable to verify the accuracy of certain tax amnesty data because of inherent limitations of the division's tax accounting system.

An audit performed by our office in 2010 was unable to determine the effectiveness of the prior tax amnesty program because of limitations of the division's tax accounting system. These limitations still existed and prevented us from verifying the accuracy of certain tax amnesty data provided by the division regarding the most recent program.

The division uses its Generic Tax System (GENTS) for taxpayer account maintenance. GENTS is part of the division's group of integrated mainframe systems, collectively known as TAXNET, and was first developed in the 1980s. GENTS is a real-time system only that shows a taxpayer's current tax status, but does not maintain historical data. This lack of an audit trail prevented us from tracing information provided by the division to GENTS in order to determine its accuracy.

In preparation for the most recent Tax Amnesty program, the division's data systems personnel determined which taxpayers were eligible to participate and created a database of the eligible taxpayers' accounts at that time. The division retained this database as a compensating control for the lack of transaction history in GENTS. We performed various analyses on the information from that database and, based on the available information, determined the program was administered in compliance with the applicable statute. However, we were unable to independently verify the accuracy of the information in the database by tracing it to GENTS because of the aforementioned limitations in GENTS.

The division has tried to update this system in the past by issuing requests for proposals, without success, and is currently developing a new request for proposal to update this system and its other tax administration systems. Until an updated system is developed, the ability to retroactively verify the data from any future amnesties would be limited.

DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION
TAX AMNESTY PROGRAM (continued)

Repeat Amnesty Participants

Participants of prior tax amnesties were not prevented from participating in the most recent tax amnesty.

The most recent Tax Amnesty program was New Jersey's fifth, with previous amnesties occurring in 1987, 1996, 2002, and 2009. Taxpayers who had participated in previous amnesties were not prevented from doing so in the latest amnesty program. We analyzed data for participants of the most recent Tax Amnesty program and found 1,271 had received amnesty after having also participated in the 2009 program.

The total amount of interest and penalties abated for those repeat participants was almost $4.7 million, while amnesty collections were $15.8 million. The following chart provides a summary of this information by taxpayer type.

Summary of Repeat Amnesty Participants

Number of Participants and Tax Items

	Individual	Business	Total
Participants	445	826	1,271
Tax Items	747	2,283	3,030

Amount of Interest and Penalties Abated

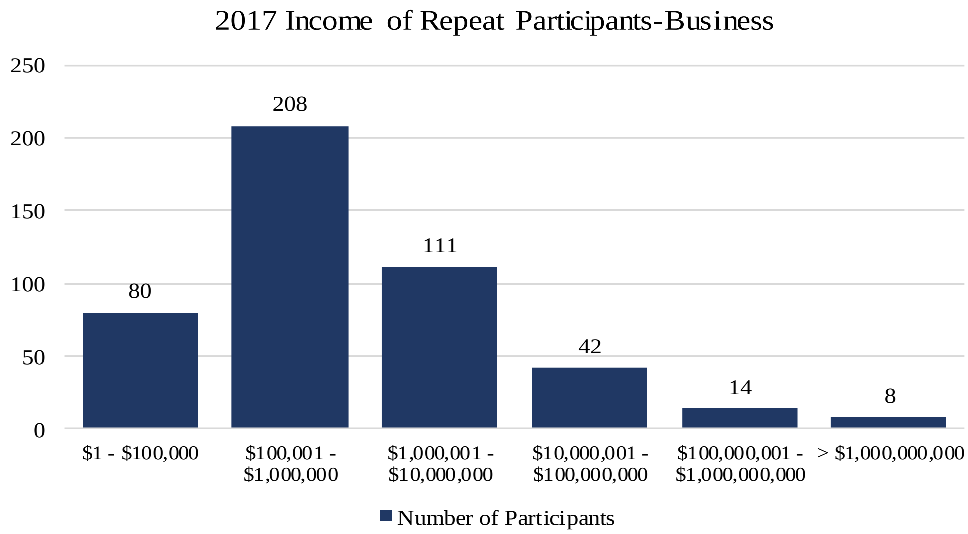
	Individual	Business	Total
Interest	$ 490,947	$ 2,319,592	$ 2,810,539
Penalty	642,052	1,314,769	1,956,821
Total	$ 1,132,999	$ 3,634,361	$ 4,767,360

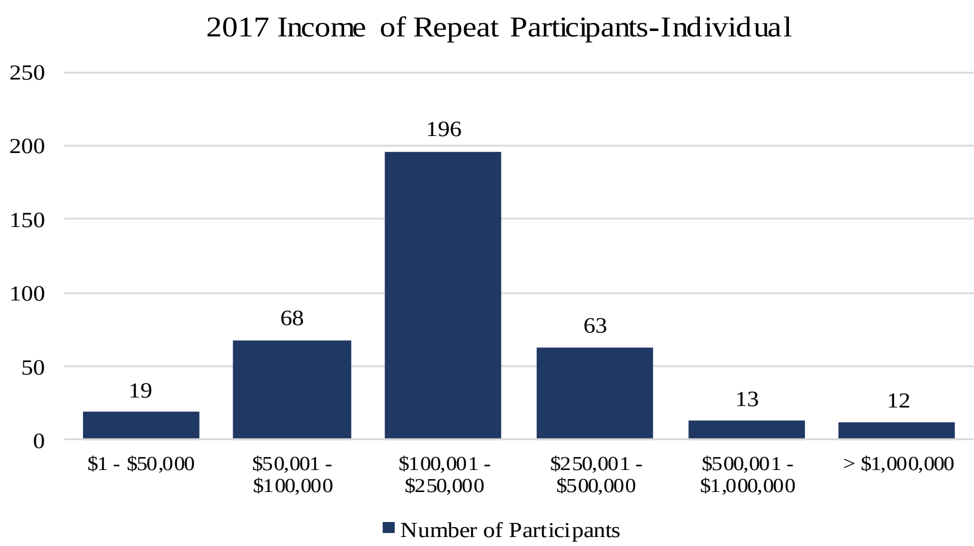
Amount of Tax Amnesty Revenue Collected

	Individual	Business	Total
Total	$ 1,569,111	$ 14,303,334	$ 15,872,445

The 2017 income of the repeat business participants averaged $47,760,997 and ranged from no income to almost $18 billion. The 2017 income of the repeat individual participants averaged $202,938 and ranged from no income to almost $7 million. There were 363 repeat business participants and 74 repeat individual participants having no reported income in 2017. The following charts illustrate the 2017 income distribution of participants of the latest amnesty with reported income in 2017 who also participated in the 2009 amnesty.

DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION
TAX AMNESTY PROGRAM (continued)





Other states have placed restrictions on tax amnesties, preventing taxpayers from participating in a tax amnesty program after having participated in a prior amnesty.

NEW JERSEY TRANSIT CORPORATION
RAIL OPERATIONS

Railroad Bridges

New Jersey Transit (NJT) has not adequately documented the prioritization for the repair or replacement of some bridges determined to be in poor or bad condition.

Federal Bridge Safety Standards require each track owner to adopt a bridge safety management program that shall include an accurate inventory of railroad bridges and a bridge inspection program. Each bridge inspection shall be done at least once in each calendar year with not more than 540 days between any successive inspections. Inspection reports shall be reviewed to evaluate for any present or potential safety hazards or if any repairs or modifications to the bridge should be scheduled to maintain structural integrity. NJT inspects and maintains all railroad bridges it owns.

Undergrade Bridges

An undergrade railroad bridge is any single opening under a track five feet or more, measured along the center of the track, and any open deck structure, regardless of the length of the opening. As of October 8, 2019, NJT maintained an inventory and regularly inspected 576 in-service undergrade bridges.

NJT implemented a Bridge Inspection and Maintenance Action operating procedure, which requires annual bridge inspections with certain types of bridges, such as open floor steel bridges, to be inspected semi-annually. The condition of two main bridge components, superstructure and substructure, are assessed as good, fair, poor, or bad for each bridge on the inspection report. Poor conditions include advanced section loss, deterioration, or spalling (i.e., water entering brick, concrete, or natural stone forcing the surface to peel, pop out, or flake off) of one or more primary structural elements. Bad conditions would require advanced deterioration of primary structural elements. Until corrective action is completed, it may be necessary to impose speed restrictions. According to NJT management, the overall condition of the bridge is determined by the lower of both of these ratings. Inspection reports serve as a basis for planning bridge maintenance and repairs. After a detailed evaluation and assessment, bridges under the maintenance jurisdiction of NJT are placed on a repair or replacement plan with a priority designation.

We reviewed inspection reports for the 576 undergrade bridges reported in NJT's inventory for calendar years 2017, 2018, and those available for 2019 as of August 29, 2019. A total of 156 of 576 inspected undergrade bridges had at least one of its main components assessed as poor or bad in the most recent inspection report as summarized in the following chart.

NEW JERSEY TRANSIT CORPORATION
RAIL OPERATIONS (continued)

Undergrade Bridges Assessed as Poor or Bad

Repair/Replacement Status	Poor Condition	Bad Condition	Total
Bridge repair completed	1	-	1
Bridge repair project in design phase	4	2	6
Bridge included on 2019 repair/replacement plan	99	6	105
Bridge not included on repair/replacement plan	44	-	44
Total	148	8	156

A total of 44 undergrade bridges, with 38 of the 44 having at least one main component assessed as poor since 2017, have not been given any priority designation for inclusion on the repair or replacement plan.

Overhead Bridges

The New Jersey Railroad Overhead Bridge Act of 1988 defines a railroad overhead bridge as "any bridge carrying a highway or private road over and across a railroad, subway, or street, traction, or electric railway, or over and across the-right-of-way of such a railroad, subway, or railway." The Act assigns NJT the responsibility for the maintenance, rehabilitation, and replacement of overhead bridges over and across a right-of-way owned by the NJT.

The same Bridge Inspection and Maintenance Action procedure that applies to undergrade railroad bridges applies to overhead bridges. NJT requires an annual inspection of all overhead bridges. We reviewed the inspection reports for the 103 overhead bridges in NJT's inventory for the calendar years 2017, 2018, and those available for 2019 as of August 29, 2019.

A total of 18 of 103 inspected overhead bridges had the condition of at least one of the main components assessed as poor or bad as summarized in the following chart.

Overhead Bridges Assessed as Poor or Bad

Repair/Replacement Status	Poor Condition	Bad Condition	Total
Bridge closed for replacement	-	1	1
Bridge on 2019 repair/replacement plan	8	1	9
Bridge on 10 year replacement plan	5	-	5
Bridge not on repair/replacement plan	2	1	3
Total	15	3	18

NEW JERSEY TRANSIT CORPORATION
RAIL OPERATIONS (continued)

A total of three bridges have not been included on the repair plan. These three had at least one main component assessed as either poor or bad condition at least as far back as 2017.

By not including them on the repair plan, NJT management has not taken steps to adequately document the prioritization for all 47 bridges with at least one main component assessed as poor or bad. Addressing bridges in poor or bad condition may prevent more costly structural damage.

Observation

On-Time Performance

Manpower and equipment shortages contributed to New Jersey Transit Rail Operations not achieving its on-time performance goals with even poorer performance during the critical peak hours.

NJT Rail Operations owns and operates 12 rail lines that are categorized as the Newark division, the Hoboken division, and Atlantic City. They comprise approximately 544 track miles serving New York City, New Jersey, and Philadelphia. NJT is responsible for a vital mass-transit system that provides service to millions of passengers while supporting New Jersey's economy and reducing road traffic congestion. During calendar years 2016 through 2018, NJT scheduled an average of 216,000 passenger trains per year which provided transportation services to approximately 87 million rail riders and annually collected approximately $574 million in rail revenue.

NJT Rail Operation sets its annual overall on-time performance goal for passenger rail operations at 94.7 percent of all scheduled trains. During calendar years 2010 to 2016, NJT reasonably achieved its target performance goal; however, it failed to achieve that goal during calendar year 2017 through May 2019. The overall annual average on-time performance for these 29 months was 91 percent. A train is considered delayed when it arrives at its final destination six minutes or more after its scheduled arrival time. Further analysis of the data for the period disclosed that on-time performance during critical peak hours was even lower (87 percent). NJT defines peak hours as weekday mornings between 6:30 AM and 9:30 AM and evenings between 4 PM and 7 PM.

NJT uses its Train Reporting System to track on-time performance. This system requires manual input of causes for train delays. The supervisor of train operations enters the cause of delays based on input from the train crew or other railroads. We reviewed these causes and determined delays due to weather, police activity, or other railroads were beyond NJT management's control and were not preventable; however, delays due to equipment and manpower shortages are under management's control and may have been preventable.

NEW JERSEY TRANSIT CORPORATION
RAIL OPERATIONS (continued)

Our review of the delays noted that 38 percent of the delays during calendar year 2017 through May 2019 were due to circumstances that may have been preventable. The following chart shows the on-time performance for the period by train count and whether the delay was preventable.

Calendar Year (CY) 2017 through May 31, 2019 On-Time Performance

	CY 2017, 2018, and 2019 as of 5/31/19	Percent of Delayed Trains for the Period
Total Trains Scheduled	513,630	
On-Time Trains	466,002	
Delayed Trains	47,628	
On-Time Performance for Period	91.72%	
Delays Not Preventable by NJT	29,219	61.4%
Delays Potentially Preventable by NJT	18,102	38.0%
Unknown (Miscellaneous)	307	0.6%
Total Number of Delayed Trains	47,628	

We further analyzed the delays that may have been preventable and found they were due to various causes as shown by the chart below. Delays related to the federally required implementation of Positive Train Control were excluded from this analysis.

Delays Potentially Preventable by NJT - CY 2017 through 5/31/19

Cause of Delay	Delayed Trains	Percent of Delayed Trains
Human Error	1,879	10.4%
Manpower Shortage	3,584	19.8%
Rail Infrastructure	3,870	21.4%
Rail Mechanical	7,164	39.6%
Rail Transportation	240	1.3%
Shortage of Equipment	1,365	7.5%
Total Delayed Trains	18,102	

ROWAN UNIVERSITY

Salary Vouchers

Controls over the processing of salary vouchers should be strengthened.

Salary vouchers (vouchers) are payments made to Rowan University (university) employees for work performed outside of their regular duties. Vouchers are paid in addition to an employee's regular salary and are comparable to overtime or overload compensation. The university does not have formal policies or procedures in place for the processing of vouchers. Prior to fiscal year 2019, vouchers were submitted on a paper form with an area for supervisors to sign for approval. Beginning in fiscal year 2019, employees submit an electronic form which triggers a series of emails to various approvers. Once the necessary approvals are obtained, vouchers are forwarded to the payroll unit for processing.

From July 2016 through January 2019 the university paid $13,653,738 in vouchers for non-teaching duties. We judgmentally selected a sample of 30 voucher payments totaling $171,804 from this period. This sample was selected to ensure inclusion of employees from each of the university's three campuses as well as five vouchers paid from grant funds. Our test noted significant control deficiencies over the processing of these payments.

- 15 of 29 payments (52 percent) lacked documented pre-approval for the work performed.

- 9 of 30 payments (30 percent) were not approved by the designated supervisor. No deviations were noted on the electronic form.

- 22 of 30 payments (73 percent) did not contain adequate support for the rate of compensation.

- 20 of 23 payments (87 percent) were not adequately supported by time records.

- 21 of 29 payments (72 percent) included vague descriptions of the work performed or no description at all.

We identified seven voucher payments in our sample where employees might have performed work during their regular work hours; however, due to the lack of available time records and vague descriptions of work performed, we were unable to determine where the employees' salary-paid duties ended and voucher-paid duties began. Without adequate assurance that the work was performed outside of employees' regular duties, the current system could result in employees receiving duplicative payments through errors or abuse.

Additionally, we noted that the state's collective bargaining agreement with the American Federation of Teachers (AFT) includes a provision limiting the amount that faculty members can earn from outside-funded activities to a maximum of 30 percent of their base salaries or $18,000, whichever is greater. We analyzed faculty compensation during the 2017-2018 academic year and noted five AFT faculty members received voucher payments in excess of 30 percent of their base

ROWAN UNIVERSITY (continued)

salaries. Total voucher payments for these employees during the academic year ranged from \$32,785 to \$100,505 ranging from 33 percent to 74 percent of their base salaries. Management attributed this issue to an increase in research among faculty and acknowledged that better controls are needed.

Faculty Release Time and Sabbaticals

University management should improve monitoring of faculty release time and sabbatical leaves.

Adjusted Workload Program

Per the AFT agreement, the basic academic year for a full-time faculty member shall be 24 teaching credits. The university has an adjusted workload program (release time) which allows tenure-track faculty members to apply for a one-course reduction of no more than three or four credits per semester of release time to participate in research, scholarly, or creative activities. The goal of this program is to encourage faculty participation in these activities, resulting in increased student involvement and external funding. College deans shall obtain and manage data regarding the status of each faculty activity resulting from release time, including the name of each faculty member, title of the activity, start dates, end dates, and detailed information on the goals, milestones, and deliverables proposed and accomplished for each related project. Per the release time program, college deans shall submit this data to the Associate Provost for Research who will create a summary progress report for the Provost to review and approve annually.

We requested detailed information from the Office of the Provost for a sample of nine AFT faculty members who received an adjusted workload and also earned additional compensation to their salary for non-teaching duties via salary vouchers during fall 2018. Our intention was to identify the projects for which the faculty members were granted release time, to ensure these projects were not duplicative of work for which they were compensated via salary vouchers, and to determine whether or not the goals or deliverables of the projects were met.

The Provost’s office provided us with summarized information listing projects and presentations that faculty had worked on during the period we requested, but we were not provided with specific information regarding the projects for which release time was approved. University management acknowledged that the detailed release time reports described in the university’s agreement with the AFT have not been prepared and stated that the program’s effectiveness is evaluated when faculty members reapply for release time which could be two years after the release time began. Due to the lack of specific information regarding release time projects, we were unable to determine if faculty members were compensated both via salary and salary vouchers for the same projects.

ROWAN UNIVERSITY (continued)

The university's agreement also allows new tenure-track faculty three credits per semester of release time automatically during their first two years of employment. We noted that two new faculty members in our sample each received six credits of release time in the semester we reviewed. We were informed these employees negotiated the additional release time during the hiring process.

Sabbatical Leave

Tenured faculty with at least six years of service can apply for a full-year or half-year paid sabbatical leave to pursue a substantial project designed to yield publishable results or to pursue an accredited terminal degree. An agreement between the university and AFT requires that faculty prepare a written report to the Provost, via his or her college dean, to specify what was accomplished during the leave. This report should be submitted within two months of the employee's return from leave.

The university paid approximately $2,561,094 to 51 faculty members with sabbatical leaves between July 2016 and January 2019. We randomly selected five faculty members with payments totaling $320,814 for compliance with the AFT agreement. All five faculty members were eligible and paid properly; however, none of the written reports due upon return from sabbatical leave were forwarded to the Provost within two months, as required. At our request, the Office of the Provost reached out to college deans for copies of the written reports. Only one of the five reports was dated; however, it was dated four days after our request and approximately fifteen months after the faculty member had returned from sabbatical leave. University management was unable to provide evidence for the dates of submission for the other four reports. These reports are necessary to ensure faculty members used paid sabbatical leaves as intended.

Observations

Faculty Compensation for Externally Funded Projects

The potential exists for increased cost recovery from external sources.

The growth of its research portfolio has been a priority of the university and faculty are encouraged to seek external funding for research projects. This commitment is demonstrated by the significant increase in external awards to the university from $3.1 million in 2011 to $59.3 million in 2019.

Despite its increased focus on externally funded research, the university does not have a formal policy addressing the compensation of faculty from external sources and university practices across campuses are not consistent. Faculty working on externally funded projects at the School of Osteopathic Medicine have their regular salaries allocated directly to those projects while faculty at the main campus and Cooper Medical School of Rowan University (CMSRU), including those who have been granted release time from teaching duties to conduct research, have their regular salaries fully funded by the university with any compensation from external sources paid

ROWAN UNIVERSITY (continued)

as additional compensation via salary vouchers. The current practice at the main campus and CMSRU limits the university's ability to recover salary, fringe benefit, and overhead costs associated with externally funded projects.

We reviewed policies and procedures of New Jersey's other public research institutions and noted that each has policies and procedures allowing for the recovery of all or a portion of faculty salaries from external sources. One of the universities, which utilizes the same collective bargaining agreement for faculty as Rowan's main campus and the CMSRU, requires faculty applying for release time to fully fund the applicable portion of their regular salary from external sources.

Housing Agreement

A long-term agreement for student housing in the City of Camden overestimated market rental rates resulting in significant subsidies from the university.

In April 2014, the university entered a 20-year agreement with a developer for the development of housing units and guaranty of rental payments. The developer agreed to construct and renovate 59 one-, two-, and three-bedroom apartment units in close proximity to the CMSRU with the intention of renting units primarily to students at fair market rates. The university agreed to make rental shortfall payments annually to the developer in the event that the developer collects less than 95 percent of the aggregate standard rent for all units. Initial standard rent amounts were established by the agreement and are increased annually by the Consumer Price Index (CPI). At the conclusion of the 20-year term of the agreement, the buildings will remain property of the developer and the university will have no further obligation to make shortfall payments.

Over the first three years of the agreement, the university made shortfall payments to the developer totaling approximately $1.3 million from the CMSRU's operating budget. This amount is equal to $4,043 per bedroom annually, or $337 per bedroom, per month. Due to low occupancy, the university and developer agreed to reduce the rental rates charged to tenants; however, no reductions were made to the standard rent amounts used in the calculation of shortfall payments and standard rent has continued to increase annually by the CPI. Overall rent collections have increased, with the developer collecting 34 percent, 46 percent, and 67 percent of the aggregate standard rent in 2016, 2017, and 2018, respectively.

The agreement appears to have been favorable to the developer as the university has assumed most of the financial risk. It does not include a provision allowing for the reduction of standard rent amounts in the event that the standard rent was set above fair market rates. The agreement places no cap on shortfall payments over the first 10 years of the agreement and an aggregate cap of $2.5 million for years 11 through 20.

OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2020

REPORT	COMPLIANCE	CONTROLS	ECONOMY/ EFFICIENCY	NONE
		TYPES OF FINDINGS		
Board of Public Utilities	X	X		
Department of Community Affairs				
Section 8 Housing Program				
Financial Data Schedules - Revised		Opinion Report		X
Department of Environmental Protection				
Division of Fish and Wildlife	X	X	X	
Department of Health				
Division of Behavioral Health Services				
Ann Klein Forensic Center	X	X		
Department of Human Services				
Division of Medical Assistance and Health Services				
New Jersey FamilyCare, Medicaid Pharmacy Program	X	X	X	
Department of Labor and Workforce Development				
Temporary Disability Insurance	X	X		
Department of the Treasury				
Division of Purchase and Property				
Procurement of Information Technology Contracts	X		X	
Division of Taxation				
Tax Amnesty Program				X
New Jersey Transit Corporation				
Rail Operations	X	X		
Pemberton Township School District	X	X	X	
Pinelands Commission		Opinion Report		X
Ridgefield Park School District	X	X	X	
Rowan University		X		
State of New Jersey				
Comprehensive Annual Financial Report				
For the Fiscal Year Ended June 30, 2019		Opinion Report		X
Fund Balance Report as of June 30, 2019		Special Report		
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*				X
Schedule of Benefit Claim Payments and Expenses				
Local Education Retired - For the Fiscal Year Ended June 30, 2019		Opinion Report		X
Schedule of Benefit Claim Payments and Expenses				
State Retired - For the Fiscal Year Ended June 30, 2019		Opinion Report		X

*The Comprehensive Annual 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/20fr/NJFRFY2020Complete.pdf.