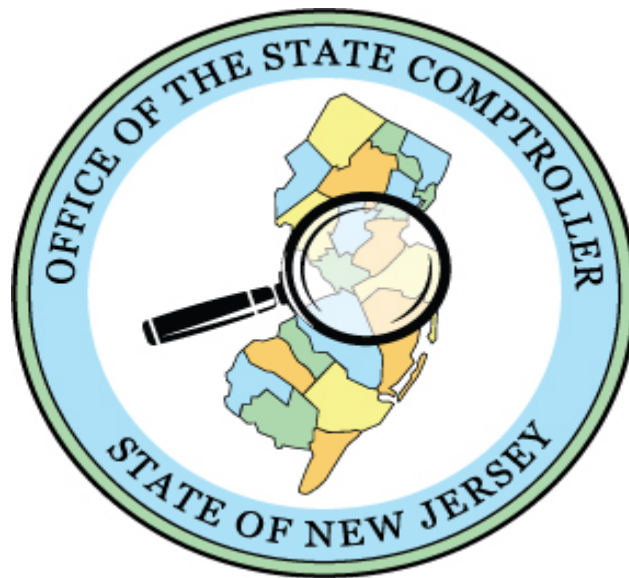


**STATE OF NEW JERSEY
OFFICE OF THE STATE COMPTROLLER**

ANNUAL REPORT

Fiscal Year 2014



**IMPROVING THE EFFICIENCY, TRANSPARENCY
AND FISCAL ACCOUNTABILITY OF NEW JERSEY
GOVERNMENT**

**Marc Larkins
ACTING STATE COMPTROLLER**

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*Dear Governor Christie,
Members of the State
Legislature and Residents of
New Jersey*

This past fiscal year saw continued success for the Office of the State Comptroller (OSC) in our mission to improve accountability, efficiency and transparency in New Jersey government.

That success can be measured in a number of different ways.

Our audits provided some of New Jersey's most financially distressed towns and cities with a blueprint to improve the efficiency of their operations and potentially save millions of dollars. Many of the public entities we audited have already achieved savings by following our recommendations to reform employee compensation practices, switch to a less expensive health benefits plan and amend procurement procedures to allow for more vendor competition.

In our Medicaid Fraud Division we once again worked to recover tens of millions of dollars in improperly paid Medicaid funds for the state and federal budget, and we avoided an estimated \$600 million in other potential Medicaid expenses through our proactive anti-fraud efforts. The Division also excluded dozens of health care providers from the Medicaid Program for committing acts of fraud or other violations.

OSC attorneys in our Procurement Division pre-screened hundreds of public contracts – more than 200 of them involving the expenditure of Sandy recovery funds – and worked closely with local government officials to ensure the legality of their procurement process. Nearly half of the procurements OSC attorneys reviewed were amended in some fashion.

Through the combined efforts of our Procurement and Investigations Divisions, we continued to expose wasteful actions that would have otherwise remained hidden. For example, our investigation into the now-defunct Newark Watershed Conservation and Development Corporation revealed an environment so lax that it permitted the agency's

executive director to write herself unauthorized payroll checks and hand out no-bid contracts to close personal associates. We also referred to state prosecutors the names of 83 public employees who provided false information about their income in order to cheat the National School Lunch Program. The state Attorney General has already charged six of those public employees with theft by deception.

This past fiscal year also saw criminal indictments that stemmed from referrals our office made a year earlier. In one case, five former county inmates and three of their spouses were indicted for stealing \$100,000 in unemployment insurance benefits. Those individuals had been identified in a May 2013 OSC audit, which found the state had improperly paid unemployment benefits to thousands of incarcerated individuals who did not qualify for such government assistance.

The state Attorney General also obtained an indictment against former Chesterfield Mayor and Planning Board Member Lawrence Durr on official misconduct charges. Durr was at the center of a January 2013 OSC investigation that concluded he had used his government position to facilitate a private land deal that brought him substantial profit.

Improving the transparency of New Jersey government also remained a top priority this past fiscal year as we continued to cast a spotlight on hidden spending practices by public entities. An investigation of more than a dozen municipalities showed the vast majority were granting overtime pay to high-level executive employees in a manner that evaded public input and failed to comply with the law. We will continue to work with each of those municipalities to ensure that appropriate changes are made to their compensation practices.

Our redesigned Sandy Transparency website provides the public with a place to view the allotment and expenditure of federal Sandy funds, to research information about Sandy programs and to examine detailed documents from Sandy-related contracts. We also helped nine towns impacted by the storm recover more than \$300,000 after our investigation found overcharges for debris hauling services.

Looking back at the past fiscal year, we are proud of what we accomplished and we appreciate the opportunity to highlight our work in the pages that follow. We look forward to working cooperatively with all of you as we continue our pursuit of positive results for the taxpayers of our state in the year ahead.

Marc Larkins
Acting State Comptroller

OVERVIEW

Since its creation in January 2008, the Office of the State Comptroller has served as an advocate for taxpayers and a leader in bringing about government reform. OSC reports have focused on bringing greater efficiency, transparency and analysis to the operation of all levels of government in New Jersey.

OSC consists of four divisions that work in a coordinated fashion while carrying out distinct functions. They are the Audit Division, the Investigations Division, the Medicaid Fraud Division and the Procurement Division. The sections of this report that follow briefly explain the role of each division while setting forth highlights of OSC accomplishments from the past fiscal year of July 1, 2013 to June 30, 2014.



Acting State Comptroller Marc Larkins appears on NJTV's NJ Today to discuss an OSC investigation that found municipalities improperly paying overtime to executive employees.

Top 10 Most Viewed State Comptroller Reports on OSC's Website in FY 2014

1. **Investigative Report – Fraudulent School Lunch Program Applications Filed by Public Employees**
2. **Report – An Analysis of Legal Fees Paid By New Jersey Local Governments**
3. **Investigative Report - Newark Watershed Conservation and Development Corporation**
4. **Investigative Report – Analysis of Local Government Overtime and Compensatory Time Practices**
5. **Audit – City of Newark, Selected Payroll, Timekeeping and Operating Practices**
6. **Compliance Audit – UnitedHealthCare Community Plan of New Jersey's Special Investigations Unit**
7. **Report – Best Practices for Awarding Service Contracts**
8. **Investigative Report – Mileage Charges Associated with the Hauling of Sandy Debris**
9. **Audit Report – The Town of Harrison, Selected Fiscal and Operating Practices**
10. **Follow-Up Report - Rutgers University Contracting and Selected Fiscal Management Practices**

AUDIT DIVISION

OSC's Audit Division conducts audits and reviews the performance of New Jersey state government, public institutions of higher education, independent state authorities, local governments and school districts. During FY 2014, Audit Division reports identified tens of millions of dollars in potential public savings.

The division is led by William P. Challice, whose previous 35 years of experience with the New York State Comptroller's Office included 20 years as audit director. Mr. Challice also is the former chair of the New York/New Jersey Intergovernmental Audit Forum and past president of the Trenton Chapter of the Association of Government Accountants.

The Audit Division staff includes numerous members who possess certifications or professional designations such as Certified Public Accountant, Certified Government Financial Manager, Certified Internal Auditor, Certified Fraud Examiner and Certified Information Systems Auditor. OSC audit staff continued to refine and update their training this past year and supplemented that training with attendance at various sessions sponsored by groups such as the Association of Government Accountants and the National Association of State Auditors, Comptrollers and Treasurers (NASACT). Staff members also take part in the National State Auditors Association peer review program, participating in reviews of governmental auditing agencies in other states.

OSC's Audit Division also includes information technology (IT) specialists whose role includes implementing and maintaining OSC's IT infrastructure, including the Audit Division's electronic work paper software. The IT audit group participates in each audit we engage by providing technical assistance and evaluations of the IT operations of the entity being audited. The IT audit group assists in pre-planning work for upcoming audits and provides training to OSC staff in computer hardware, software and other IT-related audit topics.

**During FY 2014,
Audit Division
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The Audit Division also includes a Planning and Analysis Unit that consists of a team of social science researchers who perform preliminary evaluations and make recommendations regarding potential audits. Upon engaging an audit, members of the Planning and

Analysis Unit may collect, document and analyze data for the audit. The unit also produces research reports designed to shed light on specific policy issues.

Examples of Audit Division work in FY 2014 are set forth below. OSC audit reports can be viewed in their entirety on our website.

Audit of the Management of Tax Exempt Property by Selected New Jersey Municipalities

This audit examined tax exempt property in

three municipalities and found that exemptions had been granted to 11 properties that were actually no longer eligible for them. Those properties have since been returned to the tax rolls as a result of OSC's findings. The audit also identified other deficiencies in areas such as management of municipally owned property and enforcement of tax abatement agreements, and includes 15 recommendations designed to address those weaknesses.

City of Newark – Audit of Selected Payroll, Timekeeping and Operating Practices

OSC's audit of New Jersey's largest city set forth a blueprint for savings in the area of employee compensation and in a disproportionately large City Council budget. The audit found numerous supplemental, non-salary payments the City is making to employees that can be reduced or eliminated, such as stipends for stress pay, shift differential and hazard duty. The City overpaid various employees by approximately \$216,000 in supplemental pay, through both calculation errors and payments to employees who were not eligible for them. OSC also found that the city's \$10 million annual appropriation for its Clerk and Council offices was more than six times the amount appropriated for the same offices in similarly sized Jersey City and more than eight times the amount spent in Paterson, the next largest New Jersey municipality.

OSC also found that the city of Newark's \$10 million annual appropriation for its Clerk and Council offices was more than six times the amount appropriated for the same offices in similarly sized Jersey City.

Town of Harrison, Hudson County – Audit of Selected Fiscal and Operating Practices

OSC's audit of the Town of Harrison found the municipality could save millions of dollars annually by placing appropriate limits on payouts for unused leave time and by eliminating unnecessary employee bonuses. For instance, Harrison, which receives special state aid as a financially distressed municipality, paid out more than \$3 million in longevity bonuses over a three-year period that were in addition to annual raises and cost of living adjustments. The bonuses began after only three years of service, OSC found, and ranged from 2 percent to 14 percent of an employee's base salary. OSC also

found that the Town paid out more than \$4 million in unused sick and vacation time to 57 employees who retired between 2008 and 2011. The town would have saved more than \$900,000 if it held its employees to the same unused sick leave cash-out limits used for state employees. In total, OSC's audit identified nearly \$10 million in potential savings. The town has already complied with OSC's recommendation to switch to the state health plan instead of using a private insurer, a move that will save taxpayers more than \$1 million annually.

Audit of Fiscal and Operating Practices at Selected Fire Districts

An OSC audit of three New Jersey fire districts made a series of recommendations for reducing personnel costs, including reining in annual salary increases that allowed firefighters at a fire

district in Woodbridge Township to triple their pay after five years of service. Cherry Hill Fire District No. 13, meanwhile, awarded its firefighters more than \$1.2 million in longevity payments during the two-year period OSC reviewed. Both fire districts have taken steps to reduce personnel costs since the start of OSC's audit, with Cherry Hill Fire District No. 13 reducing its starting salary for new employees by 18 percent and eliminating future longevity payments entirely. OSC's audit also recommended the Legislature consider moving the date for fire elections to the general election in November, when turnout is considerably higher, in order to promote awareness and transparency of fire district operations.

In addition to those projects, OSC conducted audits of the New Jersey Redevelopment Authority as well as the use of Energy Efficiency and Conservation Block Grants in the cities of Newark and Paterson and the counties of Monmouth and Union. Letters detailing the findings of the audits were sent to each of those public entities.

Follow-Ups

OSC obtains corrective action plans from each public entity we audit to ensure proper implementation of our audit recommendations in an appropriate timeframe. OSC subsequently conducts on-site follow-up reviews to determine compliance with those corrective action plans.

In Fiscal Year 2014, OSC followed up its 2011 audit of **Rutgers University**. The follow-up review found the university made improvements

to its procurement practices, such as eliminating a policy that had allowed it to award contracts without any competition simply by declaring the contract award to be "in the best interest of the University." However, the review found that the university still limits competition for its contracts to a select group of bidders. An OSC review of five of the university's capital project contracts found that none had been publicly advertised. Instead, the university invited a select group of firms – approximately six percent of the firms on its list of pre-approved contractors – to submit bids.

Policies and Procedures

Our efforts at OSC have included putting in place policies and procedures that guide our audit,

investigative and related processes. The following are descriptions of some of the policies and procedures we have put into effect, which we have continued to refine over the past year.

Audit Manual

For professional audit organizations such as ours, it is essential that clearly defined policies be promulgated to provide audit guidance and to ensure the quality and consistency of the audit work performed. To that end, we developed an Audit Manual to serve as the authoritative compilation of the professional auditing practices, policies, standards and requirements for OSC staff. Our Audit Manual is a constantly evolving document that is revised as standards are amended and other changes in the auditing profession occur.

Since the start of OSC's audit, Cherry Hill Fire District No. 13 reduced its starting salary for new employees by 18 percent and eliminated future longevity payments.

Audit Process Brochure

Open communication concerning the audit process lets the auditee know up front what to expect. With that in mind, OSC developed a brochure outlining the critical components of the audit process, from initiation to completion. This brochure is provided to the auditee prior to the start of an audit and also is posted on our website.

Risk/Priority Evaluation

OSC's enabling legislation requires us to "establish objective criteria for undertaking performance and other reviews authorized by this act." Accordingly, OSC developed a risk/priority evaluation matrix that considers a number of risk factors, including the entity's past performance, size of budget, whether the program is a new one, management turnover, indications of fraud or abuse, and referrals or recommendations from other government agencies. OSC staff conducts research along these parameters and assesses risk associated with each applicable factor as high, medium or low, resulting in a determination of audit priority.

Quality Control and Peer Review

Government auditing standards require audit organizations to establish an internal quality control system and to participate in an external quality control "peer review" program. The internal quality control system provides the organization with ongoing assurance that its policies, procedures and standards are adequate and are being followed. The external peer review, to be conducted once every three years, is a

professional benchmark that provides independent verification that the internal quality control system is in place and operating effectively and that the organization is conducting its work in accordance with appropriate standards.

In FY 2014, OSC's Audit Division successfully passed a peer review conducted by the National State Auditors Association (NSAA). NSAA reviewers from Illinois, New Hampshire and Wyoming spent a week reviewing three OSC audits. Audit organizations can receive a rating of pass, pass with deficiency(ies), or fail. OSC received a peer review rating of pass.

OSC participated in its first peer review in June 2011. That review was also a successful one. The external review team concluded that OSC's system for quality control had been "suitably designed" and complied with government auditing standards.

Audit Coordination

OSC's enabling legislation requires the State Comptroller to establish a system of coordination with other state entities responsible for conducting audits, investigations and similar reviews. This system serves to avoid duplication and fragmentation of efforts while optimizing the use of resources, promoting effective working relationships and avoiding the unnecessary expenditure of public funds. We continue to work closely with both state and federal audit and law enforcement officials in this regard.

Training

Audits conducted by OSC's Audit Division comply with Generally Accepted Government Auditing Standards (GAGAS). Auditors performing work under GAGAS are required to maintain their professional competence through Continuing Professional Education (CPE). Specifically, every two years they must complete at least 80 hours of CPE, 24 of which must directly relate to government auditing, the government environment, or the specific unique environment in which the audited entity operates. OSC is recognized by the National Association of State Boards of Accountancy as a CPE sponsor. This year our staff again received formal training on topics such as governmental accounting, audit sampling and documentation, fraud prevention and internal controls. All staff members in the Audit Division satisfied the biennial requirement of obtaining 80 CPEs over the reporting period.

AUDIT DIVISION – *BY THE NUMBERS*

11 – Properties identified by OSC as receiving tax exemptions for which they were no longer eligible.

\$1 million – Estimated savings for Harrison Township after complying with OSC recommendation to switch to the state health plan

\$1.2 million – Total in longevity payments awarded by Cherry Hill Fire District No. 13 during two-year period reviewed by OSC.

\$10 million – Annual appropriation for Clerk and Council Offices in City of Newark, according to OSC audit.

INVESTIGATIONS DIVISION

OSC's Investigations Division works to detect and uncover fraud, waste and misconduct involving the management of public funds and the performance of government officers, employees and programs. In FY 2014, the Investigations Division identified more than \$5.6 million in waste.

The division is led by director Noelle Maloney, who holds extensive experience at several federal agencies. Ms. Maloney most recently served as Deputy Inspector General at the United States Securities and Exchange Commission, where she oversaw investigations into allegations of fraud and misconduct.

The division consists of a staff of attorneys and investigators, including former federal and state law enforcement officials from agencies such as the Federal Bureau of Investigation, the United States Postal Inspection Service and the New Jersey State Police.

OSC's investigators field and review all tips, referrals and allegations provided to the office. Those tips come both from the general public and from government employees, and are received through OSC's toll-free hotline, via e-mail or through the mail. The hotline is also used as the official statewide hotline for any public tips regarding the waste or abuse of Sandy recovery funds. All tips are assigned to a specific investigator who reviews the information provided to determine whether further action is warranted from this office or from another government agency.

In FY 2014, the Investigations Division fielded 373 tips, some of which led to OSC audits and investigative reports. Other tips are often resolved through a simple phone call or a letter that leads to remedial action.

The Investigations Division also produced the following public reports in FY 2014:

Fraudulent School Lunch Program Applications Filed by Public Employees

As a result of this investigation, OSC referred for prosecution the names of more than 100 individuals – 83 of them public employees - who provided false information about their income on free lunch applications they submitted to school districts. Among them were 40 school district employees and six elected school board members from Pleasantville, Newark and Paterson who applied for free or reduced lunch on behalf of their children. One Pleasantville school board member underreported her household income on her application by an average of approximately \$59,000 for each of the three years OSC reviewed. The report also found that the design of the National School Lunch program ensures that the vast majority of free lunch applications are never reviewed for accuracy.

Mileage Charges Associated with the Hauling of Superstorm Sandy Debris

OSC's investigation of Sandy debris removal services in Ocean County found a series of erroneous and miscalculated hauling charges. In

total, OSC found more than \$300,000 in overcharges and other questionable billings charged to nine towns impacted by the storm. The vendors involved agreed to adjust all of the overcharges identified by OSC and credited the towns that were overbilled.

Investigation of Newark Watershed Conservation and Development Corporation

This investigation into the now-defunct Newark Watershed Conservation and Development Corporation (NWCDC) found the agency operated free from any meaningful oversight, fostering an environment that allowed the agency's executive director to write unauthorized payroll checks to herself, hand out no-bid contracts to close personal associates and surreptitiously authorize risky investment activity in an account that lost more than \$500,000 in public funds. The City of Newark delegated the management of its water assets to the NWCDC through service contracts worth roughly \$10 million a year. In March 2013, a week after OSC conducted interviews that uncovered the executive director's unauthorized check writing and investment activities, the NWCDC Board voted to dissolve and granted the executive director a severance package worth more than \$450,000. The findings of OSC's investigation were referred to both the state's Division of Criminal Justice and the Internal Revenue Service along with other state agencies.

OSC's investigation into the now-defunct Newark Watershed Conservation and Development Corporation found the agency operated free from any meaningful oversight.

Analysis of Local Government Overtime and Compensatory Practices

An OSC investigation of 14 municipalities found that 10 of those municipalities were granting overtime or compensatory time to high-level executive employees in a manner that does not comply with state law. In addition, six of those municipalities paid a total of more than \$195,000 in overtime to high-level employees without the support of a public ordinance, which is required by law and allows for public comment and a vote from the governing body. One administrator was paid nearly \$20,000 in overtime that he calculated himself, based on an inapplicable union contract for public works employees. Many of the local government entities OSC reviewed stated that they will now implement appropriate procedures for awarding overtime and compensatory time.

Review of New Jersey State Police Motor Vehicle Stops and Post-Stop Enforcement Activities

OSC's third review of the performance of the New Jersey State Police and its compliance with professional standards concerning racial profiling focused specifically on the documentation of motor vehicle stops and post-stop enforcement activity. The review found that, in general, the State Police is properly documenting motor vehicle stops and ensuring that immediate supervisors are reviewing individual troopers' actions while also looking for patterns of problematic behavior that should be modified. State law requires OSC to periodically review the performance of the State Police and its efforts to prevent racial discrimination in its policies, practices and procedures.

Guidance and Referrals

The Investigations Division also issued an alert to provide guidance to school districts entering into contracts with architectural and design firms. A review of one school district in Ocean County found that the district's contract with an architectural firm installing solar panels was procured in such a manner that it allowed the firm to set its compensation as a percentage of the estimated construction budget. When the firm overestimated the project costs by more than 38 percent, the District ended up paying the firm \$455,000 more than it should have. OSC's alert provided recommendations for avoiding such unnecessary expenditures of taxpayer dollars.

OSC's Investigations Division also made 93 referrals to other state, county and federal agencies in FY 2014, among them the state Office of the Attorney General, the state Division of Criminal Justice Sandy Fraud Working Group, the US Postal Inspection Service, the Social Security Administration and the state Department of Education.

One of those referrals led to the New Jersey Office of the Attorney General's indictment of six public employees on theft by deception charges. The six individuals had all been identified by OSC in the previously mentioned free lunch investigation.

Two days after the free lunch arrests, the Attorney General followed up on an OSC referral

from FY 2013 in obtaining an indictment on official misconduct charges against former Chesterfield Mayor and Planning Board Member Lawrence Durr. In that OSC investigation, Durr was found to have improperly used his government position to facilitate a private land deal that brought him substantial profit through the township's Transfer of Development Rights (TDR) program. Our investigators found that Durr had used his political influence and insider knowledge to push a complicated development project through multiple governmental hurdles while shielding the fact that he personally had more than a million dollars at stake in the outcome.

In addition to making referrals to other agencies, the Investigations Division also conducts inquiries based on referrals from other state agencies. Our joint efforts with these other agencies continue

to build a synergy that has led to increasingly robust investigative efforts across state government. For example, the Investigations Division also takes part in a collaborative working group of agencies called the Statewide Sandy Fraud Working Group, chaired by the Office of the Attorney General, to pool tips on possible Sandy-related scams and fraud, avoiding duplication of efforts and resulting in better coordination of investigations. In addition, the Investigations Division serves as a key resource for other divisions within OSC by helping to conduct witness interviews, and by

An OSC investigation of 14 municipalities found that 10 of those municipalities were granting overtime or compensatory time to high-level executive employees in a manner that does not comply with state law.

using a variety of investigative tools to identify potential subjects for audits. This past fiscal year, for example, the division assisted in each of the audits previously mentioned in this annual report.

Government Waste and Mismanagement Hotline

1-855-OSC-TIPS

672-8477



INVESTIGATIONS DIVISION - BY
THE NUMBERS

83 – Number of public employees referred by OSC to law enforcement authorities for providing false information about their income on free lunch applications they submitted to school districts.

373 – Number of tips fielded by OSC investigators.

\$300,000 – Total in overcharges and other questionable billings charged to nine towns impacted by Hurricane Sandy.

\$5.6 million – Total in waste identified by Investigations Division.

MEDICAID FRAUD DIVISION

OSC's Medicaid Fraud Division (MFD) serves as the state's independent watchdog for New Jersey's various Medicaid programs and works to ensure that the state's Medicaid dollars are being spent effectively and efficiently.

As part of its oversight role, MFD recovers improperly expended Medicaid funds, reviews the quality of care provided to Medicaid recipients and pursues civil and administrative enforcement actions against those who engage in fraud, waste or abuse within the Medicaid program. MFD also excludes or terminates ineligible health care providers from the Medicaid program where necessary and conducts educational programs for Medicaid providers and contractors.

In FY 2014, MFD recovered \$77.3 million in improperly paid Medicaid funds, which were returned to both the state and federal budgets. In addition, an estimated \$601.4 million in other potential Medicaid expenses were avoided through MFD's proactive anti-fraud efforts. MFD also excluded 55 ineligible providers from participating in the Medicaid program and suspended 10 others.

The division is led by acting director Mark Moskovitz, who spent nearly two decades at the Office of the New York State Attorney General, first in the Antitrust Bureau and then as a Special Assistant Attorney General and Deputy Director in the New York City Regional Office of the Medicaid Fraud Control Unit.

Operating under the authority of the Medicaid Program Integrity and Protection Act, MFD provides oversight concerning the following programs:

- New Jersey's Medicaid program, which provides health insurance to qualifying parents and caretakers and their dependent children, along with pregnant women and individuals who are aged, blind or disabled. The program pays, for example, for hospital services, doctor visits, prescriptions, nursing home care and other health care needs.
- New Jersey FamilyCare, a Medicaid-type program for uninsured children whose family income is too high to qualify for traditional Medicaid but not high enough for the family to afford private health insurance. Combined, the Medicaid and New Jersey FamilyCare programs serve more than one million New Jersey residents.
- The New Jersey Hospital Care Payment Assistance Program, commonly known as Charity Care, which provides free or reduced-charge services to patients who require care at New Jersey hospitals.

MFD's oversight focuses on Medicaid health care providers, managed care organizations and Medicaid recipients, while coordinating oversight efforts among all state agencies that administer Medicaid program services.

MFD consists of three units: Fiscal Integrity, Investigations and Recovery/Regulatory. Each of those units will be discussed in turn.

Fiscal Integrity Unit

The Fiscal Integrity Unit focuses on data mining, regulatory and compliance audits, and liability of third parties for expenses improperly paid by the Medicaid program.

Data Mining

MFD's data mining group typically is involved in the initial stages of the process leading to the recovery of improperly paid Medicaid dollars. The unit employs a variety of analytical techniques to detect anomalous or abnormal claims submitted by providers. Its findings often lead to MFD audits and investigations.

In order to identify patterns of anomalous Medicaid reimbursements, OSC's data miners review Medicaid fraud reports and investigations from other states while working with a range of additional sources to acquire pertinent data. The data mining group also monitors the Surveillance and Utilization Review System, a federally

mandated exception reporting system, for indications of fraud and abuse and to detect duplicate, inconsistent or excessive claim payments.

In total, MFD's data mining group referred 88 cases of anomalous claims behavior to MFD's audit and investigations units in FY 2014.

Audits

MFD conducts periodic risk-based audits to ensure that Medicaid providers comply with program requirements, to identify improper billings submitted by Medicaid providers and to deter fraud, waste and abuse in the Medicaid program.

For example, an MFD audit of one of the state's largest Medicaid health maintenance organizations, United Healthcare Community Plan of New Jersey, found the HMO was not fulfilling its contractual obligations to the state with regard to the recovery of misspent Medicaid dollars. MFD found that United failed to staff its investigative unit at the required minimum levels. Its total fraud and abuse recoveries amounted to less than one-tenth of one percent of the annual payments the HMO received from the state.

MFD's audit group, working with other MFD personnel, also oversees, reviews and coordinates audit work performed by other entities that have contracted with the state to audit specific types of providers. For example, the Affordable Care Act requires each state's Medicaid program to contract with a Recovery Audit Contractor to identify and recoup overpayments to Medicaid providers. MFD oversees the state's contract with this external auditor, coordinates the audits and reviews audit findings. In total, during FY 2014



MFD oversaw the recovery of more than \$3.5 million in overpayments that were identified by New Jersey's Recovery Audit Contractor.

Third Party Liability

Under federal law, if a Medicaid recipient has other insurance coverage Medicaid is responsible for paying medical benefits only in cases where the other coverage has been exhausted or does not cover the service at issue. Thus, a significant amount of the state's Medicaid recoveries are the result of MFD's efforts to obtain payments from third-party insurers responsible for services that were inappropriately paid with Medicaid funds. MFD's Third Party Liability group, working with an outside vendor, seeks to determine whether Medicaid recipients have other insurance and recovers money from those private insurers in cases where Medicaid has paid claims for which the private insurer was responsible. In addition, the Third Party Liability group also manages a daily hotline for the public and providers to call and update third party commercial insurance information for Medicaid recipients.

Investigations Unit

MFD's Investigations Unit is charged with investigating inappropriate conduct on the part of Medicaid, FamilyCare and Charity Care providers and recipients. In FY 2014, the Investigations Unit opened 519 cases and made 71 referrals to other agencies such as the Attorney General's Medicaid Fraud Control Unit, county prosecutors' offices and various county boards of

social services. MFD investigators receive allegations of fraud and waste from many sources including MFD's hotline and website as well as from other state and federal agencies. In total, MFD received 1,771 tips in FY 2014.

One investigation from FY 2014 resulted in OSC filing a \$2.7 million claim against a group of health care facilities in Neptune and Lawrenceville that allegedly submitted thousands of improper Medicaid reimbursement claims. MFD investigators found that fraudulent entries were made on patient medical records to create the false appearance that health services had been provided. The investigation also found that the facilities sought reimbursement for hundreds of patients who were not in attendance on the days

billed, as well as for services that actually were provided by a different vendor.

The Investigations Unit also assists local, state and federal law enforcement with Medicaid fraud investigations. For example, in FY 2014, MFD investigators assisted in the arrest of 13 individuals charged with engaging in a scam that involved bribing medical practitioners in exchange for patient referrals. The group allegedly paid hundreds of thousands of dollars in kickbacks to doctors and chiropractors in exchange for MRI referrals and allegedly bilked \$8 million from the Medicaid program.

To ensure the integrity of the Medicaid program's enrollment process, the Investigations Unit also conducts background checks of providers applying to participate in the program. In FY 2014, the Investigations Unit received 211 such

An estimated \$601.4 million in potential Medicaid expenses were avoided through MFD's proactive anti-fraud efforts.

applications from pharmacies, medical equipment providers, adult medical day care centers, physicians and others. The unit has thus far denied 11 of those applications based on a number of concerns.

The Investigations Unit also conducts pre-enrollment and post-enrollment site visits of Medicaid providers. During those site visits, MFD investigators verify that the applying entity is actually in existence, that it is in compliance with state and federal requirements and that the information supplied on provider applications is accurate.

In FY 2014, the work of the Investigations Unit resulted in the recovery of \$8 million in misspent Medicaid funds.

Recovery/Regulatory Unit

Recoveries and Exclusions

Our Recoveries and Exclusions Unit (R&E) recovers overpayments that are identified by MFD's auditors, investigators and the recovery audit contractor and determines when to exclude a Medicaid provider from the Medicaid program. In cases of intentional fraud, R&E may also assess additional penalties against a provider.

Once MFD identifies overpayments to be recovered, R&E sends out appropriate notices,

recovers the money from providers and recipients on behalf of the state and works with federal authorities to ensure that the federal government receives its share of any recovery. In instances where R&E collects the overpayment, MFD will take administrative action against the provider or recipient.

Providers can be excluded from participating in the Medicaid program for numerous reasons including criminal convictions, exclusions by another state or the federal government, or adverse action taken by a licensing board.

Providers can be excluded for a set number of years or, in some cases, until they provide sufficient evidence supporting reinstatement.

Actions taken against these individuals are part of an ongoing OSC effort to ensure that only those medical providers who maintain the highest integrity may participate in the Medicaid program.

MEDICAID FRAUD DIVISION - *BY THE NUMBERS*

55 – Number of health care providers excluded from the Medicaid program by OSC.

71 – Referrals made by MFD to state and federal law enforcement offices and other agencies.

\$77.3 million – Total MFD recoveries for taxpayers in FY 2014.

\$601 million – Potential Medicaid expenses avoided through MFD's proactive anti-fraud efforts.

In FY 2014, MFD excluded 55 providers - including physicians, pharmacists and home care nurses' aides – for committing fraud against the Medicaid program

Regulatory

In addition to returning Medicaid dollars back to the state through monetary recoveries, MFD also works with other state departments to propose new Medicaid program regulations designed to improve program integrity. MFD's Regulatory Unit consists of licensed attorneys who provide such input to other state departments while working with those departments to develop changes that strengthen Medicaid rules. The unit's regulatory officers also appear before the Office of Administrative Law on behalf of MFD in contested Medicaid fraud and abuse cases such as the cases described above.

One investigation resulted in OSC filing a \$2.7 million claim against a group of health care facilities in Neptune and Lawrenceville that allegedly submitted thousands of improper Medicaid reimbursement claims.

PROCUREMENT DIVISION

OSC's Procurement Division, staffed by attorneys specializing in public contract law, fulfills the office's statutory mandate to review public agency procurements exceeding \$2 million. In addition to reviewing contracts, the attorneys of the Procurement Division work with OSC's audit teams and provide guidance concerning the many legal issues that arise during the course of an audit. Division attorneys also assist on investigations, such as the investigation into the Newark Watershed Conservation and Development Corporation.

The division is led by Karen H. Shelton, a former Assistant United States Attorney in the Civil Division of the District of New Jersey, who has extensive experience litigating for and counseling government agencies.

In all, the Procurement Division received notice of 706 public contracts for review in FY 2014. Among them were contracts for university dining services, a deck replacement on the Pulaski Skyway and the construction of new schools.

Contract Reviews

As prescribed by statute, the Procurement Division pre-screens the legality of the proposed vendor-selection process for all government contracts exceeding \$10 million and has post-award oversight responsibilities for contracts exceeding \$2 million. OSC's procurement reviews cover contracts awarded by municipalities, school districts, colleges, and state authorities and departments, as well as other public boards and commissions with contracting authority.

Regulations promulgated by OSC assist public entities in determining whether a review is required for a particular contract and provide guidance as to how OSC reviews are conducted. Procurements subject to OSC review cover a wide range of contracts including land sales, leases and purchases of goods or services.

For contracts exceeding \$10 million, the Procurement Division works closely with government entities as they formulate specifications, intervening when necessary to achieve procurements that comply with all applicable laws, regulations and rules. Errors are corrected before the contract advertisement takes place.

The review of contracts valued at more than \$10 million begins with judging the appropriateness of the vendor-selection process proposed by the contracting unit. The reviewing attorney assesses, for example, whether the procurement requires sealed bids or whether other contracting procedures are appropriate. The reviewer further determines whether the government unit has followed all other statutes, rules and regulations applicable to the procurement. Additional questions asked include: Has the governing body, department or authority approved the procurement? Are the specifications designed to ensure a competitive process? Is the method of advertisement appropriate?

For contracts exceeding \$10 million, the contracting unit must submit notification to OSC 30 days before advertising or otherwise entering into a contract. On occasion, contracting units request flexibility in that time period. Accordingly, OSC has set forth a procedure through which government entities can seek a waiver of the 30-day time frame. OSC works closely with contracting units needing such a waiver to ensure that contract solicitations can be made in a timely manner.

Contracts exceeding \$2 million, including \$10 million contracts previously submitted for pre-approval, are examined post-award. The focus post-award remains on compliance with laws and regulations. In addition, a determination is made as to whether the award followed the guidelines set forth in the solicitation. For example: Did the lowest bidder get the award in a sealed bid determination that appropriately considered alternates? Did the governing body approve and certify funding for the contract? Are the records submitted sufficient to justify the governing body's action? Is there any evidence of collusion or bid rigging?

To ensure that OSC's contract reviews result in better contracting processes in both the short and long terms, the Procurement Division consults directly with contracting units during and following reviews. Depending upon the nature of the review and any deficiency noted, the Procurement Division might hold an exit interview, prepare a written determination or simply provide oral advice to the contracting

unit. In cases involving serious deficiencies, OSC may refer contracts for audit or investigation. Possible criminal activity is referred to appropriate law enforcement authorities.

The Procurement Division also has added oversight responsibilities with regard to contracts connected to Superstorm Sandy. Under Governor Chris Christie's Executive Order (EO) 125, the division is required to review any and all state procurements that involve the expenditure of federal reconstruction resources connected to Sandy recovery. The division then posts these contracts on OSC's Sandy transparency website. In FY 2014 the Procurement Division reviewed a

For contracts exceeding \$10 million, the Division works closely with government entities as they formulate specifications, intervening when necessary to achieve procurements that comply with all applicable laws, regulations and rules.

variety of purchasing practices that otherwise would have been below OSC's statutory monetary threshold for review. The division reviewed proposed procurements subject to EO 125 on an immediate basis, providing guidance and feedback to agencies to ensure compliance with public

contracting laws without sacrificing expediency in the state's recovery process. The division also issued guidance to state agencies on complying with EO 125, and proactively met with agencies to understand their unique procurement needs.

In FY 2014, the Procurement Division reviewed 235 contracts and purchases under EO 125. The total value of these procurements exceeded \$295 million. As a result of OSC's pre-screening, corrective actions were taken to modify 95 of those 235 contracts. Many of the changes involved clarifying the scope of work to be provided under the contracts to make the bidders' responsibilities more clear.

In all, the Procurement Division received notice of 706 public contracts for review in FY 2014. Among them were contracts for university dining services, a deck replacement on the Pulaski Skyway and the construction of new schools.

Of those 706 proposed contracts, 129 of them were valued at more than \$10 million and were pre-screened pursuant to OSC's regular statutory authority. OSC attorneys took corrective action in 83 of those pre-screened contracts, assisting the public entity in ensuring the legality of its procurement process.

The errors OSC encountered most frequently involved the use of specifications of a proprietary nature, such as specifications requiring bidders to provide particular brand name items without adequate reason and without permitting an opportunity to use an equivalent item.

An additional 333 contracts valued between \$2 million and \$10 million were submitted to OSC post-award. In these contracts, the Procurement Division found a 27 percent error rate. In each case, the division gave guidance to the contracting entity to ensure that the errors are not repeated.

PROCUREMENT DIVISION – BY THE NUMBERS

129 – Total public contracts valued at \$10 million or more that were pre-screened by OSC.

706 – Total public contracts screened or reviewed by OSC

\$2 million – Typical monetary threshold for OSC contract review.

\$295 million – Value of Sandy-related contracts pre-screened by OSC.

Our redesigned Sandy Transparency website, <http://nj.gov/comptroller/sandytransparency/>, provides the public with a place to view the allotment and expenditure of federal Sandy funds, to research information about Sandy programs and to examine detailed documents from Sandy-related contracts.



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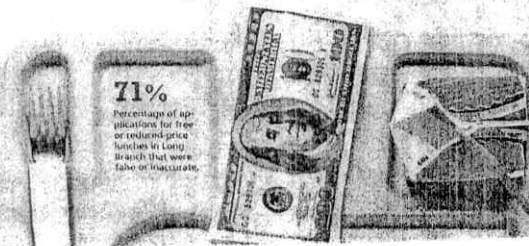
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THU

State Investigation

THEY'RE STEALING OUR LUNCH MONEY

109 households with public employees lied about income to get their kids free meals in school



N.J. comptroller finds improper overtime payments by local governments

NORTHJERSEY.COM : NEWS

State audit exposes flaws in Paterson management on tax exempt properties

State report criticizes spending in Newark

By David Garabasso
STAFF WRITER

One retired Newark employee received \$32,000 in payments from the city through 2012, despite having been dead since 2006, according to a state comptroller's report issued yesterday.

A "uniformed" employee had 400 days of sick time accrued when he retired. He collected payments for the unused time for two years after he left — and continued to get raises as if he were still working, according to the report.

Two clerks and a data processing technician received a total of \$4,000 in clothing allowances "to which they were not entitled at all," the report said.

These cases of questionable spending and sloppy record keeping were among the many cited in a 30-page report prepared by Comptroller A. Matthew Rioser's office that identified "weaknesses" in the city's payroll practices and questionable spending by the city council.

The audit, conducted on city books from January 2010 to September 2012, reviewed city payroll and timekeeping procedures, salaries paid to city employees and council and city clerk expenditures. It comes after years in which Newark's largest city has required a state bailout to make ends meet.

Among the issues cited in the report:

- Four documentation for overtime, sick time and attendance.
- Questionable accounting for "purple" payments "which were paid out but were not recorded in the city's books."
- The budget for the clerk's office was six times the actual amount.
- Though the audit could not determine whether the city's spending was excessive, it found that the city's office amount was \$1 million out of a \$10 million budget, the city said.

The report includes a number of recommendations, including more modern time-keeping practices, better documentation for overtime and better oversight of discretionary accounts.

CHANGES 'IN PLACE'

City business administrator Julian Neale said many of Rioser's recommendations are already underway. "A lot of these things are systems already in place," Neale said, referring to electronic hand scanners for almost half of city employees and new policies regarding overtime and sick time. "As far as the administration is concerned, there's nothing in the comptroller's report that indicates any wrongdoing."

"A lot of these things are systems already in place," Neale said, referring to electronic hand scanners for almost half of city employees and new policies regarding overtime and sick time. "As far as the administration is concerned, there's nothing in the comptroller's report that indicates any wrongdoing."

Neale said, Newark has an ongoing financial condition.

Newark has required emergency aid for the past two years and is under heavy state scrutiny. Since 2010 the city has required \$52 million in state aid to shore up deficits. Newark did not need aid in 2012 but city budget makers estimate at least a \$20 million deficit going into 2014.

Still, the council spent \$11,500 on photography services between 2010 and 2012. In the same period they spent almost \$1,000 on holiday decorations, \$3,900 for hotel charges for the Paterson Rioser State Police softball team and \$2,800 on uniforms and T-shirts for the Newark Police Olympic Team during the Annual Law Enforcement Officers Olympics.

RAMOS RESPONDS
Only Comptroller A. Matthew Rioser responded to The Star-Ledger's request for comment, saying he was among several members who have fought to reduce expenses.

"I put an end to a bloated public relations contract that cost city taxpayers a half a million (dollars) a year," said Ramos, who is also running for mayor. "I do not drive a city car and I do not have a city-issued cell phone. I have less staff on the payroll than I am entitled to."

Neale said the council and clerk have cut their expenses by \$1.2 million in recent years.

In his official response to the comptroller, City Clerk Robert Marano provided data showing that his office handles all police record requests, unlike in Jersey City. They process 3,500 additional public records requests to Jersey City's 740 and the Newark City Council holds, on average, 14 more meetings per year than

SHENEMAN THE STAR-LEDGER



Free school lunch fraud in NJ districts leads to charges against 6 across the state

The charges come in a wake of a report by the Office of the State Comptroller, which found what it called "widespread fraud" in the National School Lunch Program throughout New Jersey school districts.

6/10/2014



5 former NJ inmates charged with stealing \$100K in unemployment benefits while in jail

Report critical of Rutgers' contractor competition

By Patricia Allen
THE RECORD

Rutgers University continues to limit competition for its public contracts, the state comptroller's office said yesterday, a practice that could lead to inflated prices for goods and services at the state university.

The university has made some progress in reforming its buying procedures after a critical report by the state comptroller in 2011, but a follow-up report released yesterday said Rutgers still improperly limits the number of contractors it does business with and failed to advertise widely enough for some large capital projects.

"Rutgers' contracting process is more competitive today than it was when we conducted our audit in 2011," state Comptroller Matthew Boxer said in a news release. "But we continue to be surprised by the university's opposition to the basic notion of broad-based advertising of contracts funded by taxpayer dollars."

Rutgers officials said the university has complied with a number of the comptroller's recommendations and is reviewing its policies in light of its recent merger with most of the University of Medicine and Dentistry of New Jersey. "In many cases, we have embraced the comptroller's suggestions. In other instances, we have modified previously existing practices, and in some cases we do not believe that a 'best state fit' approach is in the best interests of the university," E.J. Miranda, a university

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NORTHJERSEY.COM NEWS STATE

AshBritt to repay \$300,000 after comptroller finds Sandy contractor mileage errors not intentional

State Police profiling safeguards working, report finds

By Christopher Baxter
STAR LEDGER STAFF

The State Police and the watchdog office created to review and critique motor vehicle stops by troopers continue to abide by reforms put in place during the past decade to prevent racial profiling, according to a report released yesterday

by the Comptroller's Office.

The report, the third such review by the comptroller, analyzed a select group of motor vehicle stops and dashboard video recordings, as well as the actions of the Office of Law Enforcement Professional Standards, which was created to oversee the division.

"Generally, we found that both NJSP and OLEPS have the policies and procedures in place to perform their respective duties with regard to documenting and reviewing motor vehicle stops and post-stop enforcement activity," the report said. The Comptroller's Office raised a number of areas of improvement for the division, including that supervisor reviews of motor vehicle stops failed to identify a large percentage of errors, remedial counseling and training are not always provided and technical issues with audio and video recordings have been noted.

Report: Officials pay selves unapproved OT

By Christopher Baxter
STAR LEDGER STAFF

A handful of municipalities in New Jersey improperly padded the salaries of their top executives by paying overtime and compensatory time without releasing an ordinance, a new report released yesterday by the state comptroller's office.

The investigation examined 14 municipalities and found that six had paid more than \$100,000 in overtime to high-level employees in 2009 and 2011.

Without passing a public ordinance, which requires public consent and a public hearing, the report said, several executives approved their own overtime payments. Some, the report said, while on two-week, consecutive paid leaves, were paid for regular hours during "forced" shuttles, which padded their salaries with an overtime rate of pay for working regular hours during "forced" shuttles. The comptroller's review also found that 10 of the municipalities examined awarded their executives more than 4,000 hours of compensatory time during the same two-year period without an ordinance, which is also in violation of state law. "Ordinary overtime and sick time to executive employees goes above and beyond what is legally required," said Comptroller Matthew Boxer. "Ordinary overtime and sick time to executive employees goes above and beyond what is legally required," said Comptroller Matthew Boxer. "Ordinary overtime and sick time to executive employees goes above and beyond what is legally required," said Comptroller Matthew Boxer.

Bloomberg

Harrison Fiscal Practices Criticized in N.J. State Report

By Stacie Sherman - Mar 20, 2014

Harrison, New Jersey, which used short-term financing for debt payments related to construction of the Red Bull soccer arena, could save millions annually in employee costs by limiting payouts for unused leave and eliminating unnecessary bonuses, the state comptroller said.

The town of 13,620 across the Passaic River from Newark gave employees more than \$5 million in lump-sum payouts and "longevity payments" from 2009 to 2011. At the same time, because of its financial distress, it got more than \$11 million in special state aid, plus another \$1.95 million in 2012.

Harrison will pay \$5.1 million in additional interest on the stadium because contracts with developers failed to protect it from revenue losses from construction delays, Acting Comptroller Marc Larkins said yesterday in a report. It also could have saved \$5.8 million from 2009 to 2012 if it had joined the state health-benefits program instead of using a private insurance carrier, he said.

Former mayor indicted

Lawrence Durr was charged with official misconduct and speculating or wagering on official action or information.

By DAVID LEVINSKY
STAFF WRITER

CHESTERFIELD — Former Mayor Lawrence Durr has been indicted on charges of official misconduct for allegedly using his previous position in the township government to help him profit on a property deal involving a local land preservation program, the New Jersey Attorney General's Office announced Wednesday.

The Star-Ledger

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FINAL EDITION

WRESTLERS OUSTED IN PHOTO FIRESTORM

IN SPORTS

State: Agency, ex-director took Newark for millions

Report blasts Booker administration for not monitoring watershed funds

By David Giambusso
STAR-LEDGER STAFF

Linda Watkins-Lieschner didn't let hard times get her down, state officials say.

As layoff notices were issued to almost 1,000 Newark cops, secretaries and clerks, Watkins-Lieschner and friends dined on \$1,400 worth of lobster, crab, filet mignon and cognac, while Newark taxpayers faced the bill, according to a scathing report issued yesterday by the state comptroller's office.

A timeline of the troubles at the watershed agency, Page 9

Watkins-Lieschner, the former director of the Newark Watershed Conservation and Development Corp. — a developer-owned nonprofit organization that until recently ran the city's water infrastructure — wrote unauthorized checks to herself in the tune of \$300,000, the report says.

In 2006, she was given a

\$300,000 severance package while still drawing a salary. That seemed not to concern board members who governed the agency. In 2013, when Watkins-Lieschner did leave amid a swirl of accusations, she got another severance package — this time for \$454,000, the report states.

Three were just some of the accusations leveled by the comptroller's office yesterday in a 45-page report that accuses Watkins-Lieschner and her cohorts of siphoning

off millions of city dollars in illegal payments, sweetheart deals and risky stock ventures right under the nose of then-Mayor Cory Booker.

"This report documents an egregious and yet preventable abuse of public funds that was allowed to continue unchecked for years because of poor oversight," comptroller

Chief of Staff Melissa Lieberman said in a statement.

Since the 1970s, the corporation managed the city's watershed

land in Passaic, Morris and Sussex

SEE REPORT, PAGE 9



EX-DIRECTOR SINGLED OUT

According to the state comptroller's report, former watershed director Linda Watkins-Lieschner wrote more than \$1 million in checks to her friends and ex-husband, and lost \$200,000 in stock ventures.

State: HMO failed to detect fraud in billing

Number of staffers also found lacking

By Susan K. Livo
STAR-LEDGER STAFF

An HMO that earned \$17 billion from 2009 to 2010 by providing Medicaid coverage to 350,000 low-income and disabled New Jerseyans didn't try very hard to detect fraudulent billing that cost taxpayers money, the state comptroller's office said in a report released yesterday.

UnitedHealthcare Community Plan of New Jersey identified only \$1.6 million, or one-tenth of one percent in improper payments, and failed to hire enough investigators and train them properly — a violation of its contract with the state, according to the report.

"With billions of tax dollars flowing through New Jersey's Medicaid program, our state relies on its Medicaid HMOs to fulfill their oversight responsibilities in an aggressive manner," Comptroller Matthew

Heater said. "This is another audit that shows an HMO failing to live up to requirements designed to combat fraud and lower state Medicaid costs."

In 2011, the comptroller found similar shortcomings in the fraud investigations of Horizon Blue Cross Blue Shield of New Jersey, the largest Medicaid provider in the state. Horizon challenged many of the

comptroller's findings. The HMOs in the Medicaid program are required to dedicate one investigator for every 60,000 Medicaid clients. At that ratio, United's special investigations unit should have had about six employees

working closely with the Office of the State Comptroller on whose focus is to detect fraud

and abuse by medical providers and patients. Instead, United reported it had the equivalent of two investigators during the two-year study period. The comptroller's report said United "overstated" its staffing levels and the unit had one investigator.

United for not requiring its special investigations unit to focus on fraud detection. The state also requires dentists, pharmacies, doctors and other medical providers refer suspected fraud and waste to the HMO, but the comptroller

said United had not received a year period, the report said. The HMO said in a statement yesterday that it "has been

working closely with the Office of the State Comptroller on

these matters from 2009 and 2010, and has implemented or is implementing the OSC's recommendations."

United's vice president for investigations, Richard Munson, echoed this in a written response to the audit. His June 5 letter also cited that United's handling of its investigative unit had been approved by the

regulator of the Medicaid program. The state Department of Human Services oversees and administers Medicaid, which serves 1.3 million people in New Jersey.

A Human Services spokeswoman said the department would not comment on the report. The comptroller's office has overseen Medicaid fraud investigations for the state since 2010.

Susan K. Livo (609) 982-0802 or slivo@starledger.com

Comptroller faults pay in some NJ fire districts

Associated Press, @ap 6:43 a.m. EDT May 29, 2014

TRENTON — New Jersey's comptroller found some of the state's fire districts pay their employees more than the average in New York City and Philadelphia.

Owner of health facilities fined \$2.7M in fraud case

The Office of the State Comptroller yesterday slapped a \$2.7 million fine against the owner of three mental health care facilities, charging him with submitting fraudulent bills and seeking to bar him from the Medicaid program for five years.