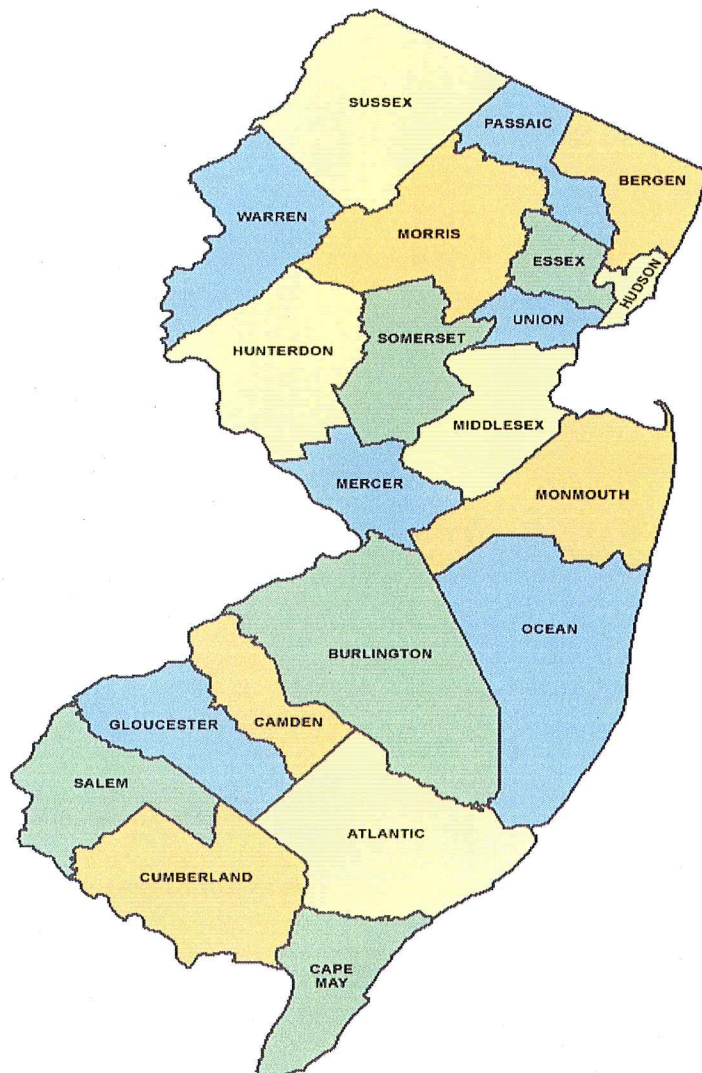

Annual Report of the New Jersey Office of Legislative Services Office of the State Auditor

For the Calendar Year Ended December 31,



2007

Richard L. Fair
State Auditor

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New Jersey State Legislature

OFFICE OF LEGISLATIVE SERVICES

OFFICE OF THE STATE AUDITOR
125 SOUTH WARREN STREET
PO BOX 067
TRENTON NJ 08625-0067

ALBERT PORRONI
Executive Director
(609) 292-4625

OFFICE OF THE STATE AUDITOR
(609) 292-3700
FAX (609) 633-0834

RICHARD L. FAIR
State Auditor

STEPHEN M. EELLS
Assistant State Auditor

THOMAS R. MESEROLL
Assistant State Auditor

The Honorable Members of the Senate and General Assembly

Mr. Albert Porroni, 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 2007. In conformance with our responsibilities to perform financial, performance, and compliance audits, all state agencies are audited periodically using a risk-based approach. We issued 37 reports during 2007 which identified \$66.2 million in potential cost savings/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 for public funds and to improve the operations of state 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 best 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 that we audit. We are committed to providing high quality audit reports. You may be assured that we will continue our efforts to improve state government accountability to the Legislature through an effective and constructive audit process.

Richard L. Fair
State Auditor
March 6, 2008

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INTRODUCTION

BACKGROUND

The Office of the State Auditor, which is in the legislative branch of government, was originally established in 1934 pursuant to P.L. 1933, c.295. A number of statutory amendments dealing with the powers and duties of the State Auditor have been 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 his successor shall be appointed and qualified. On September 26, 1989, Mr. Richard L. Fair, CPA, was appointed State Auditor Designate and was confirmed by a joint session of the Legislature on March 15, 1990.

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 1, 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 Legislature, the Governor, and the Executive Director of the Office of Legislative Services.

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 compliance with its recommendations. In addition, at the request of the Legislature or the Legislative Services Commission, the State Auditor conducts studies on the operation of state and state-supported agencies with respect to their economy, 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 which can be used to improve the operations and accountability of public entities.

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.

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

ACCOMPLISHMENTS

During calendar year 2007 we identified \$66.2 million in new cost savings or revenue enhancements. The schedule of cost savings is presented on page 3. In addition, our initial compliance review on findings related to audit reports issued during the first six months of calendar year 2006 disclosed that 91 percent of the recommendations have been complied with or management has taken steps to achieve compliance.

**OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF COST SAVINGS AND
REVENUE ENHANCEMENTS
REPORTS ISSUED DURING
CALENDAR YEAR 2007**

<u>REPORT</u>	<u>COST SAVINGS/ REVENUE ENHANCEMENTS</u> (In Thousands)
Department of Children and Families	
Office of Education	\$ 6,400
Department of Corrections	
Central Office Activities	4,196
Department of Environmental Protection	
Selected Special Revenue Funds	10,000
Department of Human Services	
Division of Medical Assistance and Health Services	
Eligibility Determination	2,555
Partial Care and Partial Hospitalization Programs	34,493
Division of Mental Health Services	
Community Services Grants-in-Aid	271
Senator Garrett W. Hagedorn Psychiatric Hospital	13
Department of Military and Veterans Affairs	
New Jersey Veterans Memorial Home Menlo Park	7,500
Department of the Treasury	
Board of Public Utilities	164
Board of Public Utilities Clean Energy Fund	206
Department of Transportation	
Division of Aeronautics	92
Essex County Vocational Schools	50
Prosperity New Jersey Incorporated	244
<i>Total Cost Savings and Revenue Enhancements</i>	<u><u>\$66,184</u></u>

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 opinion on the state's Comprehensive Annual Financial Report (CAFR) which is published by the Department of the Treasury. The CAFR engagement includes the audit of 196 funds and component units which had a total asset value of \$184.5 billion at June 30, 2007 based on full accrual accounting. Two other financial audits were issued in calendar year 2007.

Audits of Agencies

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. 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 department-wide because of their size and complexity. We performed 29 of these audits in calendar year 2007. These audits encompassed \$8.0 billion and \$1.5 billion of expenditures and revenues, respectively.

Information Technology Audits

The objectives of this type of audit are to determine whether the financial data relating to a particular computer system are reliable, valid, safeguarded, and recorded properly. During calendar year 2007, we reported on the Department of the Treasury's Division of Taxation online database security.

School District Audits

N.J.S.A. 18A:7A-57 authorizes the Office of the State Auditor to conduct a forensic audit of the fiscal operations of any school district which has a year-end general fund deficit and meets one other criteria of this act. We audited three school districts in calendar year 2007.

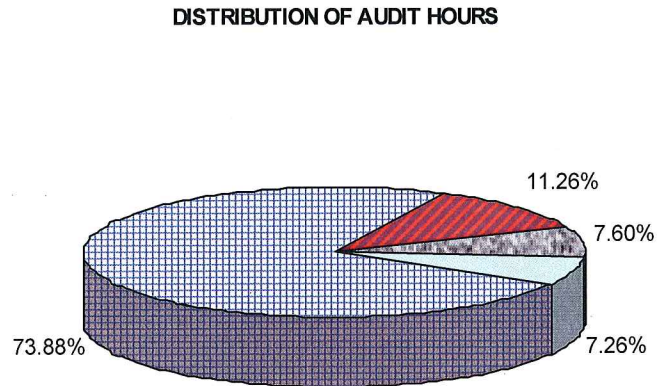
Legislative Requests

From time to time the Legislative Services Commission requested the State Auditor to conduct special projects of the fiscal practices and procedures of the major departments and agencies of the State, and to report his findings to the Commission.

AUDIT REPORTS

DISTRIBUTION OF AUDIT HOURS

The distribution of audit hours used in performing audits during calendar year 2007 is depicted on the following chart.



- | | |
|---|--|
| ■ | Agency Audits - 73.88% |
| ■ | Information Technology Audits and Support - 11.26% |
| ■ | Financial Audits - 7.60% |
| ■ | School District Audits - 7.26% |

AUDIT REPORTS

HOW AND TO WHOM AUDIT REPORTS ARE ISSUED

The findings and recommendations in our reports are developed as a result of independent objective audits and are intended to provide accountability to the legislature and recommendations for improvement of government operations. All reports issued are discussed with agency officials prior to finalizing the report. Modifications to the draft report are made if warranted. Agency comments to the final report are incorporated in the document. All issued reports of the Office of the State Auditor are public documents and since 1996 are available on the Internet through the New Jersey Legislature's Home Page. Reports are statutorily required to be sent to:

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

In addition, copies of reports are routinely sent to:

- the chairs of the pertinent Senate and the General Assembly committees,
- the Executive Directors of partisan staff,
- the management of the audited entity,
- the State Treasurer, and
- the State Library.

Finally, reports are placed on the Internet at:

<http://www.njleg.state.nj.us/legislativepub/auditreports.asp>

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 91 professional and six support staff positions. The office had eight professional staff vacancies at December 31, 2007. All auditors must have a bachelor's degree in accounting or a related field and a minimum of 24 credit hours in accounting. Forty-nine staff members, 59 percent of the professional staff, possess professional certifications or advanced degrees.

The office provides a minimum of 40 continuing professional education credits annually 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 participated 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 under the auspices of the National State Auditors Association.

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 the field staff.

The office maintains six active committees staffed by individuals in various titles to provide guidance in the areas of information technology, personnel, planning, policy, sampling, and training. An intranet site is also maintained that contains staff information, budget and appropriation information, and commonly used accounting and auditing research and reference internet sites which 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

ORGANIZATION

through reviews of working papers and reports to ensure 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 maintenance of the audit working papers and the office library, purchasing and maintaining office supplies, and other general administrative functions.

**OFFICE OF THE STATE AUDITOR
STAFF ROSTER
As of December 31, 2007**

STATE AUDITOR

Richard L. Fair, CPA, CGFM
Evelyn T. Richardson, Administrative Assistant

ASSISTANT STATE AUDITOR

Stephen M. Eells, CPA
Jean Horner, Secretary

ASSISTANT STATE AUDITOR

Thomas R. Meseroll, CPA, CGFM
Deborah S. Tucker, Secretary

AUDIT MANAGERS

Franklin F. Bowker, MBA
Joseph O. Ettenger, CFE
Anthony J. Glebocki, CPA, CFE, CGFM

J. Robert Malone, MBA
Richard Nicomini, CPA
Gregory Pica, CPA

John Termyna, CPA
Ronald E. Thompson, CIA
Rose M. Todaro, CIA, CGAP, CFE, CGFM

PRINCIPAL AUDITORS

Salah Abdel-Motaal, MA
Albert Bao, CPA
Ernest Barany, CPA
Paul R. Baron, CPA
Christian J. Breza, MBA
Cynthia Burdalski
Timothy D. Bush, CPA
John Coyle, CPA
Jerry A. DiColo, MBA, CPA
Helen Dublas, CGAP

Barbara Galager, CPA, CGFM
Robert Gatti, CPA
Kathleen Gorman
David J. Kaschak, CPA, CGFM
William Kowalski, CISA
Kenneth Kramli, CPA
Anna Lorenc
Linda Maher, CGFM
Kristen Menegus, CGAP
Donna Mooney

Stacey O'Brien, MBA, CPA
Charles Paslawsky
William D. Robinson, CPA
Donna M. Shemansky
Susan M. Stradling, MS, CPA
Thomas Troutman, CPA, CIA, CGFM
Edward J. Tyson
Robert D. Wills, CFE
John C. Wouters, CISA

AUDIT STAFF

Daniel Altobelli, CPA
James Armillei
Edward A. Backer, CPA
Hal Bauman
Kenyon Booker
Tanya Cuccia, CISA
Lorien Day
Jeffrey DeCicco, MBA
George Derbaly, MS, CPA
Sean Duffy
Thomas M. Fenerty
Louis A. Finney, CFE
Richard Grahovac, CFE, CGFM
Grant Hopkins

Vishal Jhaveri
Petagay Johnson
Joshua Keller, CMFO
Kristin Kenney
Michael Kiyaga, CPA
Brian Klingele, MS, CIA, CGAP
Joshua Mastro
Rich McHale
Nadia Negro
Smaragda Ng
Karuna Patel
Jennifer L. Phipps-Kizer
John Pullen
Robert Rizzo, CPA

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Nicole Smaha
Jesskim So
Christopher D. Soleau, CGAP
John Stenson
Hiral Suvagiya, MBA
Michael A. Tantom, MBA
Kevin Titus
Stephanie Titus
Jonathan Trauger, CPA
Shrushti Trivedi
Patrick Whalin
Kurt Zadworney

ADMINISTRATIVE STAFF

Pamela Puca, Principal Audit Processor
Anthony Arena, Support Services Assistant Robyn Boyer, Support Services Assistant

ACCOMPLISHMENTS AND RESULTS

ACCOMPLISHMENTS AND RESULTS

SUMMARY

This section highlights six of the more significant audits issued during the past year which individually contained cost savings/revenue enhancements greater than \$500,000 and collectively totaled \$65.1 million. Information on these reports is presented on pages 12 through 24. The office issued seven other reports with individual cost savings totaling \$1.1 million. This section also contains the significant findings from 11 audits on pages 25 through 42 which address areas of noncompliance with laws or regulations, weaknesses in internal controls, and comments on economy and efficiency to improve operations.

All reports issued in calendar year 2007 are identified on a schedule on pages 43 to 44 and are available for review on our internet website.

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
PARTIAL CARE AND PARTIAL HOSPITALIZATION PROGRAMS**

On-Site Reviews of Providers

The Division of Medical Assistance and Health Services, Office of Customer Services is comprised of nine Medical Assistance Customer Centers which conduct mental health quality reviews of all partial hospitalization and partial care providers annually. The review guidelines include a determination of the timeliness of the intake evaluation, the existence of a client's plan of care, and an assessment of the qualifications of the facility's program staff. The guidelines do not address the quality and appropriateness of the client's plan of care.

We visited five hospital-based providers and two partial care clinics, and interviewed key personnel and observed therapy sessions to obtain an understanding of the provider's programs. Our review of case files and attendance records for a sample of clients disclosed that the files contained the required documentation. However, we noted the following billing and care issues.

- One hospital provider included lunch as part of the therapy time and overbilled Medicaid an estimated \$553,000 for the period July 2004 to October 2006. Per New Jersey Administrative Code 10:52-2.10 (c) 1, programming shall be "exclusive of meals."
- One hospital provider was overpaid \$12,700 for services where the patient was either absent or received less service hours than were billed. Included in this amount is a claim for 33 hours of service on a single day when only three hours of service was provided.
- One hospital provider contracted out the partial hospitalization services for their children's program. The hours billed exceeded the actual hours of services provided. We estimate the Medicaid program was overbilled \$342,000 from July 2004 through December 2006. The same contractor had contracts with three other hospitals for similar services. We estimated the overpayments for those facilities to be \$138,000.
- We observed a client performing unsupervised janitorial services, such as cleaning the bathrooms of the facility. The director of the facility stated that it was common for the recipients to clean the facility and that it was considered to be "prevocational therapy." Prevocational therapy per the regulations is defined as intervention strategies and activities that assist individuals to acquire general work behaviors, attitudes, and skills needed to take on the role of worker and other life domains, such as responding to criticism, decision making and negotiating for needs, dealing with interpersonal issues, managing psychiatric symptoms, and medication adherence. The unsupervised "janitorial service" therapy provided by the partial care clinic does not meet the definition or intent of prevocational therapy.

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
PARTIAL CARE AND PARTIAL HOSPITALIZATION PROGRAMS**

- Three hospital providers had programs which included academic services in addition to therapeutic programming for children during the school year. We visited two of these providers and observed a session that was educational in nature. These sessions should not have been billed to the partial hospitalization program. According to N.J.A.C. 10:52-2.10(e), the partial hospitalization program shall not include student education. We were unable to estimate the dollar amount paid by the division for these educational sessions.

These issues might have been detected and addressed had the division included a review of programming hours and the quality of the services being provided in their assessment tools.

Opportunities for Cost Savings, New Regulations

Governor Richard J. Codey's Executive Order No. 78 directed the Department of Human Services to review its existing regulations dealing with mental health services and programs for adults and children. The Division of Medical Assistance and Health Services, in cooperative effort with the Division of Mental Health Services, implemented new regulations for partial hospitalization services in February 2007. However, the new regulations did not include the children's partial hospitalization program.

The new regulations delineated two separate services, acute partial hospitalization and partial hospitalization services. Under the new regulations, acute partial hospitalization has a six-month limit while partial hospitalization is capped at 24 months, including time spent in both acute and partial hospitalization. Acute partial hospitalization is an intensive and time-limited psychiatric service for individuals who are experiencing, or are at risk for, rapid mental decline and possible inpatient hospitalization. Partial hospitalization provides a comprehensive, non-residential, psychiatric rehabilitation program to assist individuals who have a serious mental illness in increasing or maximizing their independence and enhancing the quality of their lives.

The new regulations modified the cost based reimbursement methodology for hospital-based outpatient psychiatric services provided to adults. Adult acute and partial hospitalization hourly rates were established which resulted in \$325 and \$175 per five hour day, respectively. Establishing a fixed rate encourages fiscal efficiencies by the providers and allows the division to exercise control over the budget and cost of the program. The department estimates that an annual cost savings of \$36 million will be generated as a result of the new rates for outpatient psychiatric services. The rates for the children's partial hospitalization program were not amended and currently range from \$94 to \$967 per a full five hour day. Furthermore, the new regulations require that the division authorize acute partial hospitalization services provided to adults every 90 days up to a maximum of six months.

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
PARTIAL CARE AND PARTIAL HOSPITALIZATION PROGRAMS**

Our review indicated that the partial hospitalization program paid claims of approximately \$66 million during our audit period for children which represented 32 percent of the total claims of \$208 million. If the new partial hospitalization regulations were amended to include children, an additional annual cost savings of approximately \$13 million could be achieved. Additionally, prior authorization would ensure that the child's proposed treatment is properly supported and justified. Finally, since partial hospitalization services are not intended to serve as a permanent service placement, the duration of services rendered would be outlined for children as well as adults.

Hospital-Based Reimbursements in Comparison to Clinic Rates

Our review found that a provider received a hospital-based reimbursement for its six facilities in three counties. These facilities received a hospital-based rate of reimbursement for its programs due to the provider's ownership of a licensed special hospital facility in Essex County. The special hospital is licensed for 20 beds; however, the average daily census at the facility in 2003 was 4.2 patients according to a Department of Health inspection report. During our tour of the facility on February 15, 2007, an administrator indicated that there were only two patients.

In a reorganization plan submitted to the Department of Health in July 2004 and later withdrawn, the provider documented its desire to close the special hospital facility due to its chronic underutilization.

The division could achieve significant cost savings by reviewing the license of this special hospital facility and determining whether the provider is more structured as clinics than hospital-based facilities. Based on our review of reimbursements to this provider from 2004 to 2006, we estimated \$21 million cost savings could have been realized had the department designated this provider's six facilities in three counties as partial care clinics rather than as partial hospitalization facilities.

**DEPARTMENT OF ENVIRONMENTAL PROTECTION
SELECTED SPECIAL REVENUE FUNDS**

Worker and Community Right to Know Reporting Requirements

The Worker and Community Right to Know Act was enacted in 1983 in order to make citizens aware of hazardous substances in their environment which pose a growing threat to public health, safety, and welfare. The act was also established to inform not only the state but also local health, fire, police, and safety officials of the identity, characteristics, and quantities of hazardous substances used and stored in communities within their jurisdiction in order to adequately plan for and respond to emergencies, and to enforce compliance with applicable laws and regulations. In today's world, potential acts of terrorism magnify the importance of this information.

According to New Jersey Administrative Code (N.J.A.C.) 7:1G-3.1(a), businesses shall complete and submit to the Department of Environmental Protection a Community Right to Know (CRTK) Survey for each facility that meets or exceeds specific thresholds of environmental hazardous substances present during the reporting period. In accordance with N.J.A.C. 7:1G-5.1(a), the survey shall be submitted to the department by March 1 of the year following the reporting year. A copy shall also be submitted to the local fire and police departments, local emergency planning committee, and the Right to Know County Lead Agency of the county in which the facility is located.

Failure to complete and submit a CRTK Survey to the department may result in a penalty of \$1,000 for each violation. The department may assess an additional penalty for each day that the violation continues in an amount not to exceed \$1,000 per day. Failure to submit information to the county and local establishments may result in a penalty of \$500 for each violation and an additional penalty for each day the violation continues in an amount not to exceed \$100 per day.

We analyzed the Facilities and Chemical Inventories Tracking System (FACITS) database which records the issuance of CRTK Surveys and the submission of these surveys from businesses that maintain environmental hazardous substances. Our analysis as of February 2007 determined that 5,720 of the 25,859 surveys issued for calendar year 2004, which were due back to the department by March 1, 2005, had still not been submitted. In the succeeding year, 4,461 of the 15,121 surveys due back by March 1, 2006 had still not been submitted. According to the Office of Pollution Prevention and Right to Know, although surveys are to be submitted annually, businesses that do not submit their survey for two consecutive years receive a Notice of Violation. This notice provides a description of the violation and states that it does not preclude the State of New Jersey from initiating administrative or judicial enforcement action, or from assessing penalties. However, we were informed by management that staff constraints have limited the number of administrative orders issued to these violators. Of 325 administrative orders issued in 2005, only \$20,950 has been collected as of February 2007. If a \$1,000 penalty was imposed upon the 5,720 violators of calendar year 2004 and the 4,461 violators of calendar year 2005, the state could potentially collect

DEPARTMENT OF ENVIRONMENTAL PROTECTION
SELECTED SPECIAL REVENUE FUNDS

\$10 million in fines. More importantly, the imposition of these fines could greatly increase compliance with these reporting requirements.

We also found that the surveys were frequently not submitted to local officials. It is important that a municipality be aware of environmental hazardous substances within their community. We selected ten municipalities from ten different counties and determined that CRTK Surveys for calendar year 2005 were issued to 426 businesses that were located in these towns. As of February 2007, 23 percent of the surveys were not completed and returned to the department and 48 percent had still not been submitted to the appropriate local authorities. Although the department has implemented a pilot program with six counties to investigate businesses that failed to submit their surveys to the state, there is currently no procedure that determines which businesses have not submitted their surveys to the proper local authorities. It is therefore evident that there is no imposition of fines in these cases.

In addition to receiving the surveys, it is also important that the type and amount of any hazardous substance be accurately reported. In order to confirm the propriety of these surveys, N.J.A.C. 7:1G-1.5 states that the department shall have the authority to enter and perform inspections of any business premises. Management has indicated that inspections are limited due to staff constraints. We analyzed the results of 106 random inspections performed by the department. Thirty-two of these businesses had hazardous substances exceeding the allowable threshold, although their surveys reported hazardous substances were below the threshold or did not exist at all. The inaccuracy of surveys expands upon the problem of those which are not submitted.

New Jersey Statutes Annotated 34:5A-18 established a Right to Know Advisory Council which had the power to review any aspects of this program and provide recommendations to the department. Management stated this council ceased to function in the early 1990s. The oversight of such a council may provide assistance in correcting program weaknesses.

**DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
NEW JERSEY VETERANS MEMORIAL HOME
MENLO PARK**

Rent Charges

New Jersey Administrative Code Title 5A requires the Department of Military and Veterans Affairs to annually determine the maximum daily rate charged for care and maintenance. Our current review indicates that the department had not updated the rate since fiscal year 2002. However, subsequent to our reporting period the department increased the daily rate from \$159 to \$184 effective January 2007. The department's cost analysis indicated the rate should have increased to \$211; however a decision was made to not increase it to this level. We estimate that annual rent revenues from residents who are charged the maximum care and maintenance rate at Menlo Park, Paramus, and Vineland veterans' homes could have increased by as much as \$7.5 million during the period July 1, 2002 to June 30, 2006.

**DEPARTMENT OF CHILDREN AND FAMILIES
OFFICE OF EDUCATION**

Contract Vendor for Medicaid Recoveries

Special Education Medicaid Initiative (SEMI) is a program designed to recover a portion of the cost for certain related services provided to Medicaid eligible special education pupils. The SEMI program is managed by the Department of the Treasury, utilizing a third party contractor.

The Office of Education provides medical/health-related services to special education students. The Office of Education's regional schools prepare documents indicating the days where a related service was provided and submits them to the outside contractor. It is the contractor's responsibility to then file SEMI claims to Medicaid for those registered students that are Medicaid eligible. The contractor's scope of work is to assist the state with administrative claiming activities and in maximizing revenues by processing accurate claims, preparing management and reconciliation reports, monitoring payments, and providing quality assurance functions.

Revenue from Medicaid recoveries are received by the Department of Human Services and deposited into the General Fund. The funds received are not recorded in the Office of Education's revenue accounts.

We reviewed all Medicaid claims paid for services provided by the Office of Education for the period July 2000 through November 2006. We found that approximately \$13 million in claimable dollars, \$6.4 million of which represents state revenues, was not recovered by Medicaid because:

- Claims were not reprocessed when new rates were approved.
- Claims were not submitted to Medicaid because the current vendor's automated system was not operational. These claims cannot currently be submitted since the one year period for submission has elapsed.
- Claims were rejected due to errors and were not corrected by the contractor.

Criminal History Background Checks

N.J.S.A. 30:4-3.5 requires that all prospective and current employees of the Department of Human Services (DHS) must submit to a criminal history background check as a condition of their employment and at least once every two years thereafter. A determination must be made that the employee has no criminal history for specific crimes on the Federal Bureau of Investigation (FBI), Identification Division database, or the State Bureau of Identification (SBI) database at the Division of State Police. To comply, DHS requires a two-year criminal history background check with the FBI to ensure that the employee's information is current and up-to-date. SBI provides immediate notification when an employee is arrested based on the employer of record in the system.

**DEPARTMENT OF CHILDREN AND FAMILIES
OFFICE OF EDUCATION**

We tested 75 employees at four schools and found that 69 percent of the employees did not have background checks performed within the two year statutory requirement. Since the Office of Education has moved organizationally several times and SBI records have not been updated, the office would not be notified when an employee arrest occurs. As a result, students could be at risk.

Student Transportation Fleet

The Office of Education's bus fleet was acquired at the end of fiscal year 2003 by purchasing 170 buses for the 18 regional schools at approximately \$42,000 per bus. A standard three-year warranty was received through the manufacturer. The office contracted with a third party provider to oversee the fleet management for these buses. They currently pay \$43,000 per month of which \$24,000 is administrative cost and \$19,000 is preventative maintenance. In addition, a three- year extended warranty plan was purchased for \$479,500 through the vendor.

Our review disclosed an underutilization of buses, non-performance of contract requirements, and potential cost savings with improved fleet management services.

Typically, 58 buses sit idle on any given day. Although it would be advantageous to have a certain number of buses available when other buses are being serviced or otherwise not operational, having 58 buses, which represents 34 percent of the fleet, as backups is excessive. In addition, we reviewed the mileage for 100 percent of the buses and noted that 92 of the buses, representing 54 percent of the fleet, traveled had 29,250 miles or less during their 39 months of service.

The contract stipulates that the vendor is responsible for warranty work and repairs. However, management has stated when necessary repairs were brought to the attention of the vendor, the vendor did not perform the required work. The contract also states that the vendor must provide a mechanic on site for the bi-annual Motor Vehicle Commission (MVC) inspections. There have been numerous times when a mechanic was not present during the MVC inspections. The Office of Education is having difficulties enforcing the terms of the contract with the vendor and have yet to file formal complaints with the contract compliance unit within the Division of Purchase and Property.

**DEPARTMENT OF CORRECTIONS
CENTRAL OFFICE ACTIVITIES**

Fines, Penalties, and Restitution

Beneficiary accounts are established when a person is convicted of an offense and ordered by the court to pay fines, penalties, and restitution. These orders are recorded by the Administrative Office of the Courts on a Judgment of Conviction and sent to the Department of Corrections. In accordance with the Judgment of Conviction, the beneficiary accounts are established and maintained in the department's offenders' management system and are dedicated to the collection and disbursement of fines, penalties, and restitution. Once an offender has remitted a payment against the obligation, it is the department's responsibility to locate and mail the payment to the beneficiary. Often beneficiaries change addresses without notifying the department and their checks are returned undeliverable. According to N.J.S.A. 46:30B-41.2, when the obligor is a government entity, any property unclaimed for more than one year after it became payable or distributable is presumed abandoned. During our last two audits we noted that returned monies and monies never sent represented unclaimed funds and we recommended these funds be escheated to the state. Our current audit disclosed that \$996,000 has been unclaimed for more than one year and is as old as six years, and is presumed to be abandoned.

In addition, during fiscal year 2005 a payment was made from this account for a computer upgrade in the amount of \$178,000. We brought this to management's attention and, in fiscal year 2007, they reimbursed the account.

Payroll-Shift Overlap

The department administers 14 correctional facilities which operate 24 hours per day and requires three eight-hour shifts. The first and second shifts are staffed with the highest number of officers, while the third shift has the least amount of staff.

Shift overlap, which had been eliminated in 2001, was reinstated at the beginning of fiscal year 2007 to improve the safety of staff and inmates. For posts requiring relief, incoming officers are required to report 15 minutes early for line-up and to communicate with the outgoing officer. The 15 minute shift overlap causes overtime for each selected post, officer, and shift. It is management's responsibility to implement cost effective procedures to reduce and control overtime. However, the fiscal year 2007 overlap overtime will increase costs by approximately \$11.1 million.

As recommended in a prior audit report, the shift start and end times could be adjusted so that all shifts and all posts would overlap, but overtime would only be incurred on the third shift, where there is the least number of staff. This method of overlap would further enhance safety because all posts, not just selected posts, would overlap allowing for the necessary communication between incoming and outgoing officers. If this alternate method of shift

**DEPARTMENT OF CORRECTIONS
CENTRAL OFFICE ACTIVITIES**

overlap had been implemented, as shown below, the department could have saved \$3.2 million during fiscal year 2007.

	<u>Start</u>	<u>End</u>	<u>Shift Total</u>	<u>Overtime Total</u>
1 st Shift	6:00	14:00	8 hours	0 hours
2 nd Shift	13:45	21:45	8 hours	0 hours
3 rd Shift	21:30	6:15	8:45 hours	45 minutes

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
ELIGIBILITY DETERMINATION**

Monitoring and Oversight of Eligibility Determination

County workers generally make correct eligibility determinations from available information at the time an application is received. However, employee errors, limited staffing and resources, and not obtaining critical information can significantly affect proper determination of an applicant's eligibility and ultimately impact program costs. The Division of Medical Assistance and Health Services do not have a formal oversight mechanism in place to assist in accurate initial eligibility determinations and timely redeterminations.

Financial Eligibility Determinations

The New Jersey Administrative Code (N.J.A.C.) states that income and resource limitations must be met for an individual to be eligible for a Medicaid program. Our sample of 189 Medicaid recipients from five different counties found that 25 recipients had income above the limits for the programs in which they were enrolled. The income was verified by copies of pay stubs and/or information on the New Jersey Department of Labor Wage Reporting System. Five other recipients had resources above the limit for the aged program. Although the financial resources were disclosed in the case files, their impact on eligibility was not properly investigated. As a result, the division wrongfully paid \$525,000 for these 30 ineligible individuals.

Redeterminations

We also tested 149 recipients for timely re-determinations and found 45 recipients were not redetermined within the 12 month period as required by N.J.A.C. regulations.

Months Late	Number of Recipients
1 to 3	11
4 to 6	7
7 to 12	11
13 to 24	9
over 24	7
Total	45

The division does not have a functional mechanism to monitor compliance with performing timely redeterminations.

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
ELIGIBILITY DETERMINATION**

Case Information

Recipient files were tested for verification of personal information such as social security number, birth certificate, New Jersey residency, citizenship, and other medical insurance coverage. This information is needed to verify proper eligibility and possible cost avoidance for recipients with other insurance. We found the following exceptions.

Documentation Tested	Number of Recipients	Missing from File
Social Security Number	210	20
Date of Birth	211	22
New Jersey Resident	156	2
US Citizenship or approved VISA	209	10
Other Health Insurance	166	4

We noted that the recipient file organization at each of the five counties we visited differs. A uniform file organization would aid in assuring file completeness and ease in recipient file monitoring.

Third Party Liability

Third party liability (TPL) exists when a Medicaid claim is paid for a Medicaid recipient who has health insurance coverage other than Medicaid. According to state regulations, if a Medicaid recipient has third party health insurance coverage, such as Medicare or private health insurance, the service provider must bill the recipient's primary coverage before billing Medicaid. Service providers seeking Medicaid reimbursement for their services submit claims to the division. Claims are subjected to various Medicaid system (MMIS) edits including checks for Medicare and other third party health insurance coverage. Medicaid uses the amount paid by Medicare and other third party coverage to reduce the amount that Medicaid owes the provider. This methodology known as "cost avoidance" enables Medicaid to be the payer of last resort.

However, there are times when claims are paid by Medicaid without first being submitted to a primary health insurer. Because of this, the division contracts with a vendor to assist in

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
ELIGIBILITY DETERMINATION**

identifying TPL and to seek reimbursement from Medicare and other primary health insurers. The contractor is paid a recovery fee for this service based on the amount reimbursed.

As noted in our prior report the division was not updating MMIS files when it was notified of other insurance by the vendor. The division has made improvements, but still did not update 341 of the 918 cases (37 percent) we sampled from information identified in calendar year 2002. We also sampled recipient files identified by the vendor during the first quarter of calendar year 2006 and found that the division did not update 39 of the 100 cases tested. By not updating the MMIS files, future claims will continue to be paid first by Medicaid and when recoveries are discovered the vendor will be paid a recovery fee. During the first quarter of 2006, \$30,000 in fees were paid on recoveries for recipients previously identified as having other insurance.

In a separate review, we identified 336 state employees on Medicaid and noted that 50 percent (169) did not have their state provided health insurance reflected on MMIS. Medicaid paid over \$2 million for these 336 State employees, most of which was for managed care premiums. These managed care premiums, although redundant costs, are not for specific services and would not be recoverable from the TPL vendor.

**DEPARTMENT OF COMMUNITY AFFAIRS
NEW JERSEY HISTORIC TRUST**

Organization of Historical Services

The New Jersey Historic Trust is one of many agencies, offices, and divisions of state government providing historical services. These entities are currently operating out of multiple departments within the executive branch of government, which prevents the efficient use of state resources. A task force report issued in 1997 recommended that government operations sharing a common focus should be brought together under a unified management with the aim to eliminate the present problems of advocacy, delivery of services, fragmentation, duplication, and funding. The report also mentioned that other states have already combined their historical agencies into a single entity successfully.

Along the same theme, Executive Order #9 issued by Governor Corzine created the New Jersey Commission on Government Efficiency and Reform to “advise the Governor on governmental restructuring, effectiveness, best practices, efficiencies, cost-saving measures, and how best to achieve economies of scale in the delivery of services and programs, at the lowest possible cost, consistent with mission and quality.”

The centralization of services through the consolidation of all government entities providing historical services will increase the efficiency of the state’s preservation efforts. This consolidation would create a “one-stop-shop” for all historic services currently available to the public from the state and would coordinate with other services provided by nonprofit agencies, and county and local governments. It would provide cost savings through the elimination of unnecessary levels of management that currently exist due to fragmentation of these services.

DEPARTMENT OF CORRECTIONS MEDICAL CONTRACTS

Performance Criteria

Medical, dental, pharmaceuticals, and mental health data are maintained on the Electronic Medical Record (EMR) for the Department of Corrections' (DOC) inmate population. All data on the EMR is entered by Correctional Medical Services (CMS) representatives. Weekly, the data from the EMR is presented in the Statewide Weekly Objective Performance Indicators Report. This is a spread-sheet prepared by CMS, which utilizes the data from the EMR and the inmate data base system (iTAG), the department's offender's management system, to measure vendor performance based on specific standards stated in the contract. When the vendor is not performing in accordance with the standards stated in the contract for the specific criteria, liquidating damages may be assessed by the department. It has been determined that the department has never assessed any liquidating damages. An October 2007 report issued by the Inspector General on the contract for dental services indicated whether liquidating damages should have been assessed.

To determine the validity of the data on the EMR, we selected 178 medical encounters at three institutions and attempted to trace them to independent Department of Corrections' records that would document the movement of the inmate to the clinic on the date of the medical encounter. At the first two institutions we attempted to test 121 medical encounters. However, only 83 encounters were tested because some inmates are not transferred to the clinic for medical encounters and would not appear on any inmate movement record. Our test of the 83 medical encounters disclosed 11 that could not be supported. At the last institution we attempted to test 57 medical encounters and noted 49 encounters that could not be supported by independent DOC records.

Our review disclosed that each institution has Department of Corrections' representatives that work with the contractors addressing performance concerns noted on the Statewide Weekly Objective Performance Indicator Report and inmate complaints; however, it is the specific medical data entered into the EMR by the contractor that is used by the department to monitor performance and assess liquidating damages.

Vendor Billings

CMS employees are required to swipe their DOC identification badge through the department's time clock system (Genesis) upon entering and exiting DOC facilities. They also must swipe their badges through their own timekeeping system. The contract states that all personnel shall check in and out on the department's time clock system when arriving or departing from the DOC facilities. The contractor will not be compensated for hours not logged on the DOC time clock system.

DEPARTMENT OF CORRECTIONS MEDICAL CONTRACTS

During the second year of the contract which ended March 2007, the department compensated CMS \$39 million for wages and fringe benefits. CMS is compensated for actual hours worked at actual hourly rates up to the not-to-exceed amount contained in the contract. We found that the department relies on CMS's timekeeping system to determine reimbursement amounts and does not reconcile the data to its own timekeeping system. An audit conducted by the department's Bureau of Audit during fiscal year 2006, reported that the department's timekeeping system did not record approximately 35 percent of the direct time billed by CMS for December 2005. This timekeeping system was installed to monitor the hours billed by the health providers; however, the system cannot be relied upon as a monitoring function. We further noted that the Gateway Foundation, which billed wages and fringe benefits totaling \$3.2 million for calendar year 2006, was not required to utilize the department's timekeeping system.

The budgeted annual drug cap for pharmaceuticals for the first two contract years was \$15.8 million and \$17.3 million, respectively. These budgeted amounts are included in the determination of the inmate rate which is used by CMS in the calculation of the monthly charges to the department. If CMS spends less than the amount budgeted, 50 percent of the variance is credited to the department. If CMS spends more than the amount budgeted, the department will pay 50 percent of the overage. During the first two contract years the department's pharmaceutical expenditures were under the budget by \$1.3 million and \$1.9 million, respectively.

A CMS subsidiary is the primary source of providing pharmaceuticals to the department. Our review noted that the department does not test any actual pharmaceutical invoices. The only documentation of pharmaceutical expenditures received by the department is a vendor prepared spreadsheet listing monthly expenditures. The vendor's yearly expenditure spreadsheet is used by the department to review reported actual expenditures to the budget and the credit or billed variance calculation.

DEPARTMENT OF EDUCATION BACKGROUND CHECKS – SCHOOL DISTRICTS

Oversight Responsibility

N.J.S.A. 18A:6-7.1 requires that all prospective employees of a school district under the supervision of Department of Education (DOE) must submit to a criminal history background check as a condition of their employment. Using a fingerprint screening process, a determination is made whether the individual has a criminal history for specific crimes on the Federal Bureau of Investigation, Identification Division, or the State Bureau of Identification database at the Division of State Police. The Office of Fiscal Accountability and Compliance (OFAC) has oversight responsibility to ensure the state's 644 school districts and charter schools are having prospective employees obtain a background check.

The methods and procedures used by OFAC to determine compliance with the statute consists of manually conducting reviews at the school districts by comparing master employee listings from the district's human resources unit and payroll registers to an approved applicants report created by the DOE's Criminal History Review Unit. Their current method is very time consuming and is being performed by a staff of one full-time auditor and two part-time auditors. The auditors determine when the employees are hired and when the last approval date was on the criminal history database to determine compliance with the applicable law at that time. In addition, the auditors perform compliance reviews of employees of contracted services and bus drivers. For the period May 2002 through June 2007 only 93 of the 644 school districts and charter schools have been audited.

Our review merged the computerized files of the Department of Labor and Workforce Development's wage reporting with OFAC's qualified individual's database resulting in employees at the sampled school districts who had not gone through the required fingerprint process. This computer match was completed in less than an hour.

Our review also entailed obtaining lists of the employees of contracted services such as doctors, food service employees, bus drivers, and construction workers and comparing those lists to OFAC's qualified list. Our review noted that not all of the contracted service employees are having background checks, especially construction workers.

Optional Background Checks for Non-Public Schools

Candidates for employment and employees of contracted services at over 1,300 non-public schools are not required to submit to a criminal history background check under New Jersey statutes. Approximately fifty percent of the non-public schools have chosen to voluntarily go through the Department of Education criminal history background check. Hence, individuals who may have been or would be "disqualified" from working in school districts under the supervision of DOE could be on campus at non-public schools, therefore putting the students at risk.

**DEPARTMENT OF EDUCATION
BACKGROUND CHECKS – SCHOOL DISTRICTS**

Volunteers on Campus

P.L. 2007, Chapter 82 allows an individual board of education under the supervision of DOE to determine if criminal background reviews are required for volunteers who have regular contact with pupils. Our review disclosed that not all public schools are requiring background checks of volunteers. Our review also disclosed that non-public schools do not have the authority to require background checks of volunteers. Hence, for both public and non-public schools there continues to be a risk that warrants specific legislation.

Motor Vehicle Suspension Information

School bus drivers in New Jersey must have both a Student “S” and Passenger “P” commercial license endorsement from the Motor Vehicle Commission (MVC) in order to transport children to school. To obtain a commercial driver license with a school bus endorsement, an applicant must already possess a passenger endorsement and be fingerprinted and processed through a DOE criminal history background check. The licenses are generally valid for four years but the driver must have a physical every two years. The Commissioner of Education has the oversight responsibility for qualified school bus drivers. OFAC maintains the database for all individuals qualified to drive a school bus.

The MVC may suspend all commercial endorsements due to a review of the driver’s history or a disqualifying medical/physical condition. However, MVC does not provide this information to OFAC. Thus proper notification of suspension to a school district or transportation employer can not be made and DOE’s database is not updated.

**DEPARTMENT OF EDUCATION
SCHOOL DISTRICT
BACKGROUND CHECKS – DISQUALIFIED INDIVIDUALS**

Inadequate Monitoring of Disqualified Individuals

N.J.S.A. 18A:6-7.1 requires that all prospective employees must submit to a criminal history background check as a condition of their employment. A determination must be made that the individual has no criminal history for specific crimes on the Federal Bureau of Investigation, Identification Division, or the State Bureau of Identification database at the Division of State Police. The Department of Education requires school districts to have prospective employees submit an “Applicant Authorization and Certification” and submit to fingerprints to the state authorized vendor for fingerprint screening.

Our review of 21 sampled school districts noted six disqualified individuals had worked or are currently working at a school district. Our review disclosed:

- One individual was disqualified and was currently employed by a school district.
- One currently employed individual appears to have a fraudulent approval letter in the employee file.
- One individual was disqualified in July 2005 but hired September 1, 2005 by the same school district and worked until April 18, 2007.
- One individual was terminated upon disqualification but was rehired by the school district to teach parent center education.
- Two individuals had initially been terminated but were rehired after having their records expunged. When an individual has a criminal record expunged after a disqualification, they are required to have a new criminal history background check. There was no evidence of a follow-up background check.

**DEPARTMENT OF THE TREASURY
BOARD OF PUBLIC UTILITIES**

Internal Controls – Fines and Penalties

The Board of Public Utilities (BPU) assesses fines and penalties for violations of established rules and regulations for cable TV, pipeline safety, gas and electric companies, telecom, and water. Total fines and penalties collected during our audit period were \$12.3 million. Our review of these transactions disclosed that there were no accounting reports summarizing all fines assessed, collected, and outstanding. The BPU does not have adequate procedures and controls to identify whether all fines and penalties assessed are paid. In addition, we found that when fines and penalties are posted to the New Jersey Comprehensive Financial System, sufficient information is not provided to readily identify the source of the transaction. An effective system of internal controls requires written procedures to fix responsibility for the collection, accounting, and processing of revenues in order to reduce the risk of errors or irregularities. Without minimal accounting records to provide an audit trail, there is increased risk that revenue items collected by the BPU will not be properly deposited and recorded on the state's financial system. One example of an accounting issue involved an installment payment. The initial payment of penalty and interest totaling \$468,000 was received in December 2004. The balance of \$1.7 million was paid by September 30, 2005; however, no accounting document was prepared by the BPU to record the receipt in their revenue account. The \$1.7 million remained in a Department of the Treasury bank account as unidentified revenue from September 2005 to June 2007 when we brought this matter to management's attention.

**DEPARTMENT OF THE TREASURY
BOARD OF PUBLIC UTILITIES
CLEAN ENERGY FUND**

Grant Accounting Procedures

The Office of Clean Energy (OCE) provided \$2.7 million of funding in 2003 and \$763,000 in 2004 to develop renewable energy markets, businesses, and technologies in New Jersey through the Clean Energy Program. The goal was to leverage private and public funding to advance renewable energy technologies.

The 2003 grant solicitation received 33 proposals of which nine were funded. Records critical to the 2003 evaluation process were no longer available and as a result we were unable to independently verify that decisions made in the evaluation process were fair, unbiased, and were merited based on the scoring procedures established by the OCE. We also found that the OCE deemed ten of the 2003 grant proposals as “non-responsive” because there was no co-funding in the grant proposal, even though the grant solicitation states that co-funding is not required. Documentation supporting the 2004 award process was available; however, summaries as to how the OCE arrived at final recommendations to the board were not available. The lack of documented grant award procedures prevents the OCE from exhibiting a transparent award process. Treasury Circular Letter 06-16-DPP requires that agencies maintain documentation showing that a contract was competitively awarded. In addition, all documents relating to the solicitation and award of the contract must be retained for a period of seven years.

The New Jersey Board of Public Utilities (BPU) has a written agreement with each grant recipient. The agreement includes general terms and conditions, post award, and award closeout requirements. Our review of the 2003 grant awards disclosed that three of the nine grantees received initial payments that were between 33 percent and 50 percent more than the stipulated payment per the grant agreement. These “advances” were offset by reduced payments in the remainder of the grant period. We also noted seven grants did not have the required final financial data and two grants did not have the required final reports. The OCE did not have adequate monitoring controls to ensure that grant terms and conditions were completed as required.

Related Party Transactions

Our review of the OCE expenditures disclosed transactions with individuals who have a relationship with the office. Transactions between related parties commonly occur during the normal course of business. The BPU’s accounting policies and procedures do not address doing business with related parties. Our review identified a number of OCE expenditures which involved REED grant recipients and vendors who had relationships with the OCE, or contracts with individuals who were former employees. The lack of clear policies and procedures limits the OCE’s ability to provide adequate assurance that related party transactions were handled at arms length.

**DEPARTMENT OF THE TREASURY
BOARD OF PUBLIC UTILITIES
CLEAN ENERGY FUND**

Utility Company Program Expenditures

The OCE does not monitor expenditures reported by the utility companies for the energy efficiency program that the utilities continue to process. Total expenditures for these programs as reported by the utilities in fiscal year 2006 were \$95 million. OCE policies and procedures for the transfer of funds into and out of the Clean Energy Fund require that program managers submit all relevant documentation to support claimed expenditures. The policies and procedures dated 2004 identify the utility companies as the New Jersey Clean Energy Program energy efficiency program managers. We found that reports submitted by the utility companies do not provide details of expenditure data including administrative cost. By not reviewing and monitoring expenditure data, the OCE has no assurance that utility expenditures for the Clean Energy Program are accurate and relate to energy efficiency programs.

Federal Reporting Requirements

The Internal Revenue Service (IRS) requires reporting of payments for services performed for a trade or business by people not treated as its employees when said payments are \$600 or more. IRS Form 1099 Miscellaneous Income is to be utilized. The OCE did not provide Form 1099s to vendors that were paid in excess of \$600 from the fiscal agent bank account in 2004. Our review disclosed that 15 vendors were paid \$550,000 in 2004 and Form 1099s were not issued. In 2005 two vendors were paid \$21,000 and no Form 1099 was issued. When the OCE assumed control of renewable energy funds from the utility companies, procedures were not established to ensure compliance with the IRS reporting requirements. The appropriate reporting has been accomplished since March 2005 when payments started to be processed through the Department of the Treasury bank account.

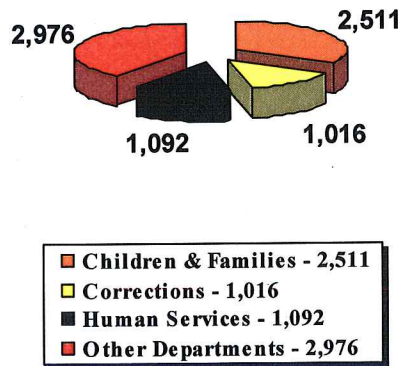
**DEPARTMENT OF THE TREASURY
DIVISION OF ADMINISTRATION
TRANSPORTATION SERVICES
CENTRAL MOTOR POOL**

Preventive Maintenance

The Central Motor Pool (CMP) managed approximately 7,600 state vehicles during fiscal year 2007. A breakdown by department is illustrated in Graph 1. CMP policy requires state vehicles to be brought in for preventive maintenance every 7,500 miles or eight months. The assigned driver or the agency's vehicle coordinator is responsible for the scheduled maintenance per Department of the Treasury Circular Letter 93-04a-DPP. Failure to submit a vehicle for preventive maintenance could result in the vehicle being recalled and the driver's state vehicle driving privileges being suspended. As noted on Graph 2, 828 vehicles were overdue for service as of July 12, 2007. Forty vehicles were overdue for more than 18 months as shown in Graph 3.

Graph 1

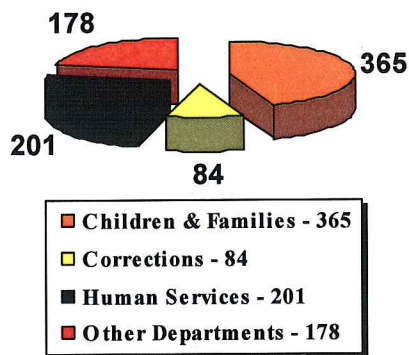
**Number of Vehicles
By Department**



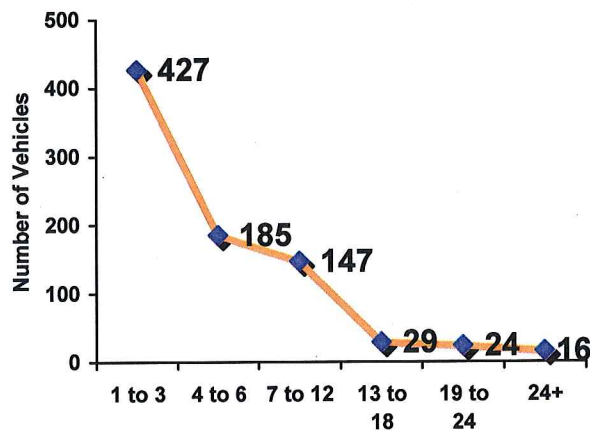
**DEPARTMENT OF THE TREASURY
DIVISION OF ADMINISTRATION
TRANSPORTATION SERVICES
CENTRAL MOTOR POOL**

Graph 2

**Number of Vehicles
Overdue for Service
By Department**



**Graph 3
Number of Vehicles Overdue for
Service
By Months**



A vehicle's performance and lifecycle may be adversely affected when scheduled preventive maintenance is not performed timely. The vehicle's safety could also be compromised and unnecessary repairs may be necessary. We found no evidence of vehicles being recalled or employees' state vehicle driving privileges being suspended by the CMP.

**DEPARTMENT OF THE TREASURY
DIVISION OF ADMINISTRATION
TRANSPORTATION SERVICES
CENTRAL MOTOR POOL**

Calculation of Surcharges

Currently, the use of credit cards for non-emergency purchases, the purchase of fuel when a ward station (state or municipality-run facility) is within 10 miles, or the purchase of high octane or premium priced fuel results in the CMP calculating surcharges to the using agencies. This manual process is tedious and time consuming and usually requires two employees two weeks per month to complete the task. Meanwhile, a significant number of questionable transactions disclosed in our audit are not reviewed by the CMP. Examples of these transactions are noted below.

Gas purchases that exceed vehicle tank capacity

We matched vehicle tank capacities to both credit card and ward station transactions and found a significant number of gas purchases exceeding the tank capacity.

Fiscal year	Greater than 2 gallons over tank capacity		Greater than 5 gallons over tank capacity *	
	# of vehicles	# of transactions	# of vehicles	# of transactions
2006	227	723	114	238
2007	194	887	67	224
Total	421	1,610	181	462

* Included in 2 gallons or greater figures.

Same day fuel purchases

We developed a report which disclosed that during fiscal year 2007 there were over 1200 same day ward and credit card fuel transactions. A scan of the report resulted in 344 transactions we considered questionable transactions. With minimal analysis, we identified 72 transactions which were unreasonable based on the time between transactions.

We developed another report that identified over 2000 same day ward or same day credit card transactions during our two-year audit period. We considered 255 transactions to be questionable.

The majority of the above questionable transactions involved two departments. Both agencies stated these transactions could be a result of card sharing. The CMP explained that ward cards could contain duplicate numbers. No one provided substantive proof that the transactions were proper.

**DEPARTMENT OF THE TREASURY
DIVISION OF PURCHASE AND PROPERTY
PROFESSIONAL SERVICES CONTRACTS**

Training of State Contract Managers

Pursuant to N.J.S.A. 52:34-10.7 any state agency entering into a contract is required to designate an employee who shall be responsible for the overall management and administration of the contract. Treasury Circular Letter 07-03-DPP outlines the duties and responsibilities of a State Contract Manager such as ensuring bills are accurate and contract requirements have been satisfied by the vendor. The circular letter also states "State Contract Managers for agency-specific contracts exceeding a total contract amount of \$1 million shall have undergone using agency-funded formal project management training prior to assuming the position". It further requires the Division of Purchase and Property (DPP) to provide agencies with a list of acceptable training programs or to request the Department of Personnel to establish a training program.

Our interview of the contract managers for the 16 contracts in our sample exceeding \$1 million found that none of them received agency-funded training in project management. More than half of those interviewed were not aware of the circular letter. Without receiving appropriate training, contract managers might have difficulty meeting the responsibilities outlined in the circular letter, which could lead to inefficiencies and ineffectiveness. This also increases the risk the state will pay for services not rendered and will pay for deliverables not met.

Requests for Waivers of Advertising

The Division of Purchase and Property (DPP) may grant state agencies an exemption from procuring goods and services through the advertised bidding process. Agencies must ask for these exemptions by submitting a Request for Waiver of Advertising document. The waiver process is used by agencies because of the technical nature of the services to be performed. It is also used by agencies wanting to utilize a sole source vendor or to retain services quickly in matters of public exigency. Although we noted the waiver process was generally followed and proper approvals were obtained, we noted a pattern where agencies limited competition on smaller contracts and subsequently extended the business relationship to larger contracts. Specific examples follow.

- A state agency used a waiver to obtain the consulting services of a former employee for \$175,000 in 2004. Although competition was sought for the original procurement, this consultant was subsequently considered a sole source vendor by the agency and was given additional contracts through waivers totaling \$467,000 over the next three years.
- A state agency was granted a waiver for \$2 million to hire experts to testify at hearings and to assist in developing policy proposals and draft legislation. The agency improperly used this waiver to hire other individuals, including former employees, to perform general office functions at a cost of \$272,000.

**DEPARTMENT OF THE TREASURY
DIVISION OF PURCHASE AND PROPERTY
PROFESSIONAL SERVICES CONTRACTS**

- A state department used the waiver process, with limited competition, to hire a consultant for \$146,800 to perform a risk assessment. At the completion of the work, the same consultant was hired through the waiver process for \$1.6 million to expand the services.
- A state department initially used the waiver process, with limited competition, to hire a consultant in fiscal year 2004 for \$100,000 to assist in developing policies and procedures. The department then considered them a sole source vendor and rehired them to perform other services totaling \$692,000 during the next three years.

When agencies limit competition there is a greater risk of the state not obtaining the best possible price and terms for the service. Also, the hiring of former employees with limited competition creates an appearance of impropriety or a related party transaction, especially when these relationships are extended.

We also noted four instances, from the 18 waivers tested, where agencies procured services and allowed the work to begin prior to seeking DPP approval to use the waiver process. Treasury Circular Letter 00-02-DPP provides guidelines for utilizing the waiver process and for commencing with verbal approval from DPP only when the public's health and safety are at risk or there is a matter of public exigency. None of these instances involved situations where the public's health and safety were at risk or that were a matter of public exigency. Although DPP recognized these instances, they have limited recourse against the violating agencies.

Monitoring of Scope and Deliverables

Professional services contracts were sometimes vague regarding the scope of work, the product to be delivered by the vendor, or the payment terms. In 20 of our 26 sample contracts the deliverables and payment terms were clearly defined and there was tangible evidence of a finished product. The six remaining contracts' scope of work contained terminology such as "coordinate", "review", "evaluate", and "assist with the development of policies and procedures". We noted the following instances where unclear scope of work or payment terms caused cost overruns and overpayments.

- At one state agency there were differences in interpretation between two consultants and the agency regarding the extent of services to be provided. In both cases the consultants worked beyond the scope of the original contract and they submitted bills in excess of the waiver maximums. The agency ultimately negotiated payments of \$980,000 to settle the cost overruns.
- Unclear deliverable and payment terms caused a state department to overpay a vendor \$48,000 for audits never completed. Instead of paying a fixed price for each audit, it paid the vendor a monthly rate regardless of the number of audits completed. The department also paid the same vendor \$53,000 for optional work never completed.

**DEPARTMENT OF THE TREASURY
DIVISION OF PURCHASE AND PROPERTY
PROFESSIONAL SERVICES CONTRACTS**

- A department overpaid an advertising agency \$266,000 because the vendor calculated its commission before applying its discount received on advertising spots. This matter was referred to the Division of Purchase and Property (DPP) which took immediate action to collect the overpayments.

We also noted inconsistencies in how agencies documented progress and achievement of deliverables. In addition, project assessment forms were not remitted to the DPP Contract Compliance Audit Unit at the completion of contracts as required by Treasury Circular Letter 98-14-OMB. This form provides DPP with an evaluation of the vendor's performance and with some assertion by the agency whether vendors adequately delivered services in accordance with the contract.

Time Reporting of Hourly Consultants

We reviewed 15 professional service contracts in which the state paid the vendors by the hour or the day. Since the state did not have a standard policy regarding time reporting for professional service contracts, the form and content of vendor time reporting varied widely. The record keeping of vendors' time for the contracts we reviewed varied as follows:

- Two agencies kept time records for the vendor and compared it to the vendor bill to ensure accuracy.
- For six contracts, vendors maintained detailed written time records that included the employees' names and the hours worked per day. No agency records were maintained.
- For six contracts, vendors submitted written invoices including the employees' names and total hours or days for a billing period. No agency records were maintained.
- One vendor did not submit any written evidence of the employees' names or hours worked during the billing period. No agency records were maintained. Invoices for seven consecutive months were identical for the hourly wage portion of the contract totaling \$861,000.

Inadequate timekeeping could cause the state to pay for hours that were not worked by the vendors or to pay for individuals whose time was not included in the contract.

**DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION
ONLINE DATABASE SECURITY**

Field Auditor Laptops

A review of the security over confidential taxpayer data stored on field auditor laptop computers was performed to determine whether controls are in place to protect it from unauthorized access, viewing, and use. We noted that sensitive taxpayer data is not encrypted. The division currently does not have a policy in place requiring the encryption of sensitive data stored on these laptop computers. An industry best practice states that a policy on the use of cryptographic controls for protection of information should be developed and implemented. It should include, among other things, the use of encryption for protection of sensitive information transported by mobile or removable media, devices, or across communication lines. In the absence of encryption, a laptop that is lost or stolen may have the information stored on it inappropriately disclosed or misused.

ESSEX COUNTY VOCATIONAL SCHOOLS

Adult Evening Program Receipts

The Essex County Vocational Schools District operates an adult evening program each school year. Tuition ranges from \$100 to \$350 per student. The district's system of internal control over the collection of tuition and fees was inadequate. The same individual collects, deposits, and reports the revenue to the controller. There was no reconciliation of the pre-numbered receipt books to bank deposits. In addition, these receipt books were not utilized in sequential order. Furthermore, we found the following:

- Our review of the receipt books showed receipts for the audit period totaling \$137,000. However, deposits in the bank account for the same period totaled \$130,000. The district could not account for the \$7,000 shortage.
- Waivers of tuition were granted to some adult evening school students by the director or the principal without the superintendent's or board's approval. There is no written policy or procedure for waivers of tuition and fees. Revenues could not be calculated for the audit period because of incomplete records maintained by the district. We estimate that \$14,000 of waivers were granted for school year 2006/2007. Adequate documentation was lacking in many cases. Hand written comments on the night school application card served as the only supporting documentation.
- The district has a "no cash accepted policy" for tuition payments. However, we noted several cash payments on the cash receipts documents. We contacted a few students who assured us that they had, in fact, paid their tuition in cash. No cash entries were noted on the bank deposit slips.
- The district does not deposit receipts in a timely manner. Late deposits of several weeks or months were not uncommon.

THOMAS EDISON STATE COLLEGE AND THE STATE LIBRARY

Fund Balance

Thomas Edison State College has excessive unrestricted fund balance amounts being carried over from year to year. State appropriation amounts should be monitored so funds are disbursed based on needs. The unrestricted fund balance at the college totaled \$24.2 million at June 30, 2006. Unrestricted fund balance, which has averaged 69 percent of yearly expenses over the past four years, is currently four times the average appropriation amount received by the college, and is greater than one year's tuition and fees. The college has requested state funding annually and the state has appropriated between \$5.3 and \$6.1 million with an average of \$5.7 million to the college over the past four years. Tuition fees have increased an average of 7.75 percent annually during the same period.

Employee Reimbursements

The college provides for payment of employee expenses that are deemed necessary and essential to transacting the official business of the college. Such expenses as travel, official receptions, and miscellaneous expenses related to college activities can be reimbursed to employees. Our audit disclosed inadequate controls over the monitoring of employee reimbursements, primarily where upper management submissions were involved. In addition, some employees approve their own business related travel plans. The lack of oversight and approval controls over all employee reimbursement requests has allowed for improper payments to be processed by the college.

We reviewed college employees with the highest level of travel reimbursements during our audit period and noted the following non-compliance issues.

- We noted 62 instances totaling \$3,100 in which college employees were reimbursed for local lunches with fellow employees and business associates in violation of the travel policy.
- We noted 46 instances totaling \$2,300 in which per diem rates reimbursed to employees were in excess of allowable amounts. In several cases reimbursements were three times the allowable per diem rate.
- We noted 23 instances totaling \$2,400 for miscellaneous expenses of a personal nature which were reimbursed without adequate supporting documentation and/or in conflict with travel policies.
- Our testing disclosed the college does not require an itemized meal receipt. The majority of the receipts we tested only listed a total amount. This practice makes it difficult for the college to comply with policies which forbid the reimbursement of certain items (i.e. alcoholic beverages).
- We noted four instances totaling \$400 where payments were reimbursed to employees who paid subsistence expenses on behalf of other employees and/or family members. Due to this allowance we found three duplications of meal reimbursements between employees.

**OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2007**

<u>REPORT</u>	<u>TYPES OF FINDINGS</u>			
	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY/ EFFICIENCY</u>	<u>NONE</u>
Beverly City School District		X		
Casino Control Fund		Opinion Only		
Compliance Review 2006	X			
Department of Children and Families				
Office of Education	X	X	X	
Department of Community Affairs				
New Jersey Historic Trust	X	X	X	
Selected Programs				X
Department of Corrections				
Central Office Activities	X	X	X	
Medical Contracts		X		
Northern State Prison				X
Department of Education				
Background Checks – School Districts	X	X		
Background Checks – Disqualified Individuals		X		
Department of Environmental Protection				
Selected Special Revenue Funds	X		X	
Department of Human Services				
Division of Medical Assistance and Health Services				
Eligibility Determination	X	X	X	
Partial Care and Partial Hospitalization Programs	X	X	X	
Division of Mental Health Services				
Community Services Grants-in-Aid		X	X	
Senator Garrett W. Hagedorn Psychiatric Hospital	X	X		
Department of Military and Veterans Affairs				
New Jersey Veterans Memorial Home Menlo Park		X		
Department of the Treasury				
Board of Public Utilities	X	X	X	
Board of Public Utilities Clean Energy Fund	X	X	X	
Division of Administration				
Transportation Services Central Motor Pool	X	X		
Division of Purchase and Property				
Professional Services Contracts	X	X		
Division of Revenue			X	
Division of Taxation				
Online Database Security		X		

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<u>REPORT</u>	<u>TYPES OF FINDINGS</u>			
	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY/ EFFICIENCY</u>	<u>NONE</u>
Department of Transportation				
Division of Aeronautics		X		
Maintenance and Operations	X	X		
Essex County Vocational Schools		X		
Essex County Vocational Schools – Forensic		X		
Judiciary				
Administrative Office of the Courts				
Judiciary Bail Fund	X	X		
Montclair State University		X		
New Jersey Comprehensive Annual Financial Report		Opinion Only		
New Jersey Housing and Mortgage Finance Agency	X	X		
Pinelands Commission		Single Audit Report		
Prosperity New Jersey Incorporated		X		
State of New Jersey				
Report on Internal Control and on Compliance and Other Matters Related to Our Audit of the State's Comprehensive Annual Financial Report				X
Thomas Edison State College and the State Library		X		
Transportation Trust Fund Authority Appropriations				X
Willingboro Township School District		X		