

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

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**Casino Control Fund**

Fiscal Year 2011

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**Stephen M. Eells  
State Auditor**



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

STEPHEN M. EELLS  
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*Assistant State Auditor*

# New Jersey State Legislature

## OFFICE OF LEGISLATIVE SERVICES

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

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ALBERT PORRONI  
*Executive Director*  
(609) 292-4625

The Honorable Chris Christie  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Sheila Y. Oliver  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Casino Control Fund for Fiscal Year 2011. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells  
State Auditor  
February 1, 2012

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### INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of the State of New Jersey Casino Control Fund as listed in the accompanying table of contents as of and for the years ended June 30, 2011 and 2010. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1-G, the Casino Control Fund adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of July 1, 2010.

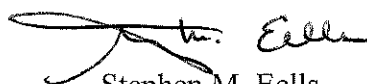
As discussed in Note 1, the financial statements present only the Casino Control Fund and do not purport to, and do not, present fairly the financial position of the State of New Jersey as of June 30, 2011 and 2010, the changes in its financial position, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Casino Control Fund as of June 30, 2011 and 2010 and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2012 on our consideration of the Casino Control Fund management's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual - Budgetary Basis and reconciliation are not required as part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Casino Control Fund financial statements. The expenditure detail schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The expenditure detail schedule has been subjected to the auditing procedures applied in the audit of the Casino Control Fund financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Stephen M. Eells  
State Auditor  
January 31, 2012

**STATE OF NEW JERSEY  
CASINO CONTROL FUND  
BALANCE SHEET  
JUNE 30, 2011 AND 2010**

	2011	2010
<b><u>ASSETS</u></b>		
Cash	\$ 51,000	\$ 51,000
Accounts Receivable	10,291,783	9,761,124
Less: Allowance for Doubtful Accounts	1,228,161	90,363
Net Accounts Receivable	9,063,622	9,670,761
Due from General Fund	6,370,599	8,237,156
Total Assets	\$ 15,485,221	\$ 17,958,917
<b><u>LIABILITIES AND FUND BALANCES</u></b>		
Liabilities		
Accounts Payable	\$ 4,039,150	\$ 4,563,033
Deferred Revenue	6,983,500	9,053,500
Total Liabilities	11,022,650	13,616,533
Fund Balances		
Committed	4,462,571	4,342,384
Total Fund Balances	4,462,571	4,342,384
Total Liabilities and Fund Balances	\$ 15,485,221	\$ 17,958,917

The accompanying notes are an integral part of the financial statements

**STATE OF NEW JERSEY  
CASINO CONTROL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010**

<u>REVENUES</u>	2011	2010
Casinos		
Licenses - Casino	\$ 42,380,528	\$ 46,429,936
- Slot Machine	14,263,958	15,520,792
- Alcoholic Beverage	79,632	86,838
Assessments	-	-
	56,724,118	62,037,566
Credits - Prior Year Fund Balance	(29,867)	(1,868,224)
Total from Casinos	56,694,251	60,169,342
Other Sources		
Licenses - Casino Employees	1,109,397	1,047,494
- Casino Service Industry	813,869	765,368
Equipment Prototype Testing	2,144,369	2,027,316
Other Revenues	25,018	50,686
Total from Other Sources	4,092,653	3,890,864
Investment Earnings	17,702	23,817
Total Revenues	60,804,606	64,084,023
 <u>EXPENDITURES</u>		
Public Safety and Criminal Justice (Division of Gaming Enforcement)	39,498,111	37,587,075
Government Direction, Management and Control (Casino Control Commission)	21,186,308	24,552,653
Total Expenditures	60,684,419	62,139,728
Excess (Deficiency) of Revenues over Expenditures	120,187	1,944,295
 <u>OTHER FINANCING SOURCES</u>		
Transfers from Other Funds	-	500,000
Net Change in Fund Balance	120,187	2,444,295
Fund Balance - Beginning	4,342,384	1,898,089
Fund Balance - Ending	\$ 4,462,571	\$ 4,342,384

The accompanying notes are an integral part of the financial statements

**STATE OF NEW JERSEY  
CASINO CONTROL FUND  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 - Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

**B. Financial Reporting Entity**

The Casino Control Commission and the Division of Gaming Enforcement are agencies of the State of New Jersey. N.J.S.A. 5:12-143 established the Casino Control Fund to account for the financial transactions of these agencies.

**C. Fund Level Financial Statements**

The State of New Jersey issues government-wide financial statements that report information for all of the non-fiduciary activities of the State including that of the Casino Control Fund. Due to the legislative mandate that the Casino Control Fund be financed exclusively by licensing fees assessed upon the casino industry, a Fund Level Financial Statement is prepared for the Casino Control Fund.

A Fund Level Financial Statement includes a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances.

**D. Measurement Focus and Basis of Accounting**

The Casino Control Fund statements utilize the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and liabilities are included on the balance sheet. The operating statement for the fund presents increases and decreases in total fund balances.

In accordance with the modified accrual basis, revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Material revenues susceptible to accrual would include casino license fees.

Expenditures are recognized when the related fund liabilities are incurred. Disbursements for prepaid expenses, inventory items, and fixed assets are recorded as expenditures when incurred.

#### **E. Fund Accounting**

The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which represents the fund's assets, liabilities, equity, revenues, and expenditures or expenses. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds.

#### **Governmental Fund Type - Special Revenue Fund**

The Casino Control Fund is a governmental fund type - Special Revenue Fund. Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects.

The Casino Control Fund (N.J.S.A. 5:12-143) accounts for fees from the issuance and renewal of casino licenses and other license fees. Appropriations are made from the Casino Control Fund to finance the operations of the Casino Control Commission and the Division of Gaming Enforcement.

#### **F. Budgetary Process**

An annual budget is adopted for the Casino Control Fund. The Legislature enacts the budget through passage of a specific appropriation, the sum of which may not exceed estimated revenues. The annual appropriations act for fiscal year 2011 authorized \$68,847,427 which consists of an original appropriation of \$66,696,000 and other authorized appropriations of \$2,151,427. Budgetary control is maintained at the program unit level.

During the year, the spending authority delineated in the appropriations act may be revised for supplemental appropriations approved by both the Legislature and the Governor. For fiscal year 2011, no supplemental appropriations were granted to the Division of Gaming Enforcement or Casino Control Commission.

A Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual - Budgetary Basis for the fiscal year ended June 30, 2011 is presented as required supplementary information to these statements. This statement presents a comparison of the final budget adopted for the Casino Control Fund with actual data on a budgetary basis.

The State's budgetary basis of accounting differs from that utilized to present financial statements in conformity with generally accepted accounting principles (GAAP). The main differences between the budgetary basis and the GAAP basis are that under the budgetary basis encumbrances are recognized as expenditures, and the budgetary basis reflects transactions only for the current fiscal year.

There were no expenditures in excess of appropriations in the Casino Control Fund.

#### **G. Fund Balances**

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 54, the fund balances of a Special Revenue Fund are classified depicting the relative strength of the spending constraints placed on the purposes for which fund resources can be used.

The fund balances of the Casino Control Fund are classified as *Committed*. Fund balances designated as *Committed* can only be used for specific purposes pursuant to constraints imposed by the government itself. N.J.S.A. 5:12-143b mandates that moneys in the Casino Control Fund shall be appropriated exclusively for the operating expenses of the Casino Control Commission and the Division of Gaming Enforcement.

Within the committed fund balances as of June 30, 2011 and June 30, 2010, money has been set aside (encumbered) pending vendor performance in the amounts of \$280,586 and \$325,817, respectively.

#### **H. Reclassification of Prior Year Fund Balance**

The fund balance of \$4,342,384 existing as of June 30, 2010 has been reclassified on the Balance Sheet as *Committed* in accordance with GASB Statement No. 54.

#### **I. Other**

Other significant accounting policies are described in Notes 2 to 10.

**NOTE 2 - Cash**

Represents a \$500 petty cash fund maintained by each agency and a \$50,000 confidential fund maintained by the Division of Gaming Enforcement.

**NOTE 3 - Accounts Receivable**

Represents amounts due from casinos and related entities. Net receivables are substantially collected within three months.

Allowance for doubtful accounts represents one hundred percent of non-current receivables.

**NOTE 4 - Due From General Fund**

Cash transactions of the Casino Control Fund are made by and through the General Fund cash accounts. The balance of cash for this fund held in the General Fund, after receipt and disbursement transactions, is accounted for and reflected in the Due From account on the Balance Sheet.

**NOTE 5 - Capital Assets**

Capital Assets acquired with fund resources are recorded as expenditures of the fund at the time of acquisition. Assets greater than \$20,000 are also recorded in the State's government-wide financial statements. Capital assets are depreciated using the straight line method. The State assigned estimated useful life for machinery and equipment is 4-30 years. A summary of these capital assets and related accumulated depreciation for the year ended June 30, 2011 follows:

<u>Program</u>	<u>Asset</u>	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets June 30, 2011</u>
Government Direction, Management and Control	Machinery & Equipment	\$921,820	-	\$ 27,000	\$678,513	\$216,307
Public Safety and Criminal Justice	Machinery & Equipment	\$419,943	-	-	\$354,768	\$65,175

**NOTE 6 - Deferred Revenue**

Deferred Revenue represents fiscal year 2012 and fiscal year 2011 slot machine license billings collected and recorded in June 2011 and 2010, respectively.

**NOTE 7 - Fund Balance**

The Casino Control Fund ended with a positive fund balance as of June 30, 2011. This balance includes \$ 4,312,519 of the fiscal year 2010 fund balance which was credited to casino licensees during fiscal year 2012. Pursuant to N.J.A.C. 19:41-9.1(e) the remaining fund balance as of June 30, 2011 totaling \$150,052 will be credited to casino licensees in fiscal year 2012 upon approval by the Director of the Division of Gaming Enforcement in proportion to the relative amount of total fees paid by each casino licensee with respect to the fiscal year ended June 30, 2011.

**NOTE 8 - Employee Benefit Costs**

Fringe benefit costs which include pension, health benefits, payroll taxes, and amounts for unused sick leave are originally paid by the General Fund and are charged to the Casino Control Fund using a composite fringe benefit rate.

Cash payments for accumulated sick leave balances are made to retiring employees upon regular retirement. The payment is based on fifty percent of the employee's sick leave accumulation, at the pay rate in effect at the time of retirement up to a maximum of \$15,000. Employees separating from state service prior to retirement are not entitled to payments for accumulated sick leave balances. Sick leave accumulations may also be used by an employee for a personal illness or injury as a means of continuing regular pay. The liability for accumulated employee sick leave balances as of June 30, 2011 and June 30, 2010 of approximately \$3.4 million and \$3.3 million, respectively, is reflected as a non-current liability on the State's government-wide financial statements and is not accrued in these financial statements.

Employees annually earn 12 to 25 vacation days based on years of service and are permitted to carry over those days earned within a one-year period. The liability for accumulated vacation pay as of June 30, 2011 and June 30, 2010 of approximately \$1.5 million and \$1.4 million, respectively, is reflected as a non-current liability on the State's government-wide financial statements and is not accrued in these financial statements.

**NOTE 9 - Interest**

The General Fund charges interest to the Casino Control Fund when disbursements exceed receipts collected and credits interest to the Casino Control Fund when receipts collected exceed disbursements made. The interest rate used during fiscal year 2011 and fiscal year 2010 was equal to the effective rate of return on investments in the General Fund and varied from 0.23% to 0.36% in fiscal year 2011 and from 0.35% to 0.61% in fiscal year 2010. The net effect of these transactions is reflected in the Investment Earnings account on the Statement of Revenues, Expenditures, and Changes in Fund Balances.

**NOTE 10 - Contingent Liability**

As of the issuance date of these statements, the Casino Control Fund is not involved in any legal actions wherein there is potential for unanticipated expenditure. Should any legal actions subsequently materialize, N.J.A.C. 9:41-9.1 allows the Casino Control Fund to apportion any uncollected cost among the licensed casino facilities.

# **REQUIRED SUPPLEMENTARY INFORMATION**

**STATE OF NEW JERSEY  
CASINO CONTROL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance with Final Budget</u>
<b>REVENUES</b>				
Casinos				
Licenses - Casino	\$ 50,378,428	\$ 50,355,428	\$ 42,350,661	\$ (8,004,767)
- Slot Machine	14,244,000	14,244,000	14,263,958	19,958
- Alcoholic Beverage	87,000	87,000	79,632	(7,368)
Assessments	-	-	-	-
Total from Casinos	<u>64,709,428</u>	<u>64,686,428</u>	<u>56,694,251</u>	<u>(7,992,177)</u>
Other Sources				
Licenses - Casino Employees	1,275,491	1,275,491	1,109,397	(166,094)
- Casino Service Industry	831,860	831,860	813,869	(17,991)
Equipment Prototype Testing	1,971,833	1,971,833	2,144,369	172,536
Other Revenues	35,815	35,815	25,018	(10,797)
Total from Other Sources	<u>4,114,999</u>	<u>4,114,999</u>	<u>4,092,653</u>	<u>(22,346)</u>
Investment Earnings	<u>23,000</u>	<u>20,000</u>	<u>17,702</u>	<u>(2,298)</u>
Total Revenues	<u>68,847,427</u>	<u>68,821,427</u>	<u>60,804,606</u>	<u>(8,016,821)</u>
<b>EXPENDITURES</b>				
Public Safety and Criminal Justice (Division of Gaming Enforcement)	43,450,846	41,720,321	39,462,509	2,257,812
Government Direction, Management and Control (Casino Control Commission)	<u>25,396,581</u>	<u>24,385,106</u>	<u>21,243,744</u>	<u>3,141,362</u>
Total Expenditures	<u>68,847,427</u>	<u>66,105,427</u>	<u>60,706,253</u>	<u>5,399,174</u>
Net Change in Fund Balance	-	2,716,000	98,353	(2,617,647)
Fund Balance - July 1, 2010	-	-	-	-
Fund Balance - June 30, 2011	<u>\$ -</u>	<u>\$ 2,716,000</u>	<u>\$ 98,353</u>	<u>\$ (2,617,647)</u>

**STATE OF NEW JERSEY  
CASINO CONTROL FUND  
BUDGETARY COMPARISON SCHEDULE  
BUDGET-TO-GAAP RECONCILIATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Budgetary Basis - Net Increase (Decrease) in Fund Balances** **\$ 98,353**

Differences - Budget to GAAP

Encumbrances for items ordered but not received are reported in the year the resources are encumbered for budgetary purposes, but in the year the items were received for GAAP purposes. \$ 274,500

Expenditures in prior fiscal year accounts are reported in the year the resources are encumbered for budgetary purposes, but in the year the funds are disbursed for GAAP purposes. (252,666)

Total Differences - Budget to GAAP 21,834

**GAAP Basis - Net Increase (Decrease) In Fund Balances** **\$ 120,187**

# **SUPPLEMENTARY INFORMATION**

**STATE OF NEW JERSEY  
CASINO CONTROL FUND  
EXPENDITURE DETAIL  
FISCAL YEARS ENDED JUNE 30, 2011 AND 2010**

	2011		2010	
	PUBLIC SAFETY AND CRIMINAL JUSTICE	GOVERNMENT DIRECTION MANAGEMENT AND CONTROL	PUBLIC SAFETY AND CRIMINAL JUSTICE	GOVERNMENT DIRECTION MANAGEMENT AND CONTROL
EXPENDITURES:				
Salaries	\$ 25,786,756	\$ 13,980,338	\$ 24,621,491	\$ 16,249,394
Payroll Taxes and Employee Benefits	8,379,283	4,727,514	7,818,591	5,608,853
Printing and Office Supplies	128,283	114,123	104,603	115,853
Vehicular Supplies	278,238	-	229,018	-
Travel	99,056	7,101	82,347	11,061
Telephone	239,967	199,739	278,835	269,047
Data Processing	277,970	455,799	321,159	640,752
Professional Services	63,325	49,935	51,652	97,280
Other Services Other Than Personal	267,583	97,685	275,318	92,940
Rent-Facilities	2,281,689	1,385,887	2,043,086	1,300,818
Rent-Automobiles and Other	54,101	102,306	53,739	110,494
Indirect Costs	447,603	37,652	1,405,196	35,340
Improvements	-	-	7,970	-
Office Equipment	702	551	46,902	1,278
Vehicular Equipment	923,110	-	(5,625)	(13,180)
Other Equipment	270,445	27,678	252,793	32,723
Total Expenditures	<u>\$ 39,498,111</u>	<u>\$ 21,186,308</u>	<u>\$ 37,587,075</u>	<u>\$ 24,552,653</u>

Office of the State Auditor  
Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on  
an Audit of the Financial Statements of the  
State of New Jersey Casino Control Fund

For the Fiscal Year Ended  
June 30, 2011

LEGISLATIVE SERVICES COMMISSION

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### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the State of New Jersey Casino Control Fund as of and for the year ended June 30, 2011, and have issued our report thereon dated January 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

Management of the Casino Control Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Casino Control Fund management's internal control over financial

reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Casino Control Fund management's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Casino Control Fund management's internal control over financial reporting.

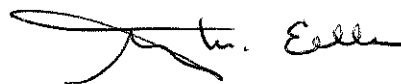
A deficiency in internal controls exists when the design or the operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

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

This report is intended solely for the information and use of management and the legislature, and is not intended to be and should not be used by anyone other than these specified parties.



Stephen M. Eells  
State Auditor  
January 31, 2012