New Jersey Office of Legislative Services
Office of the State Auditor

2015
Annual Report

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

Stephen M. Eells, State Auditor

Message from the State Auditor

The Honorable Members of the Senate and General Assembly

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

I am pleased to present to you the *Annual Report of the New Jersey Office of Legislative Services, Office of the State Auditor* for calendar year 2015. 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 23 reports during 2015 which identified $41.8 million in potential cost savings and revenue enhancements. We also found that more than half of New Jersey's businesses are not submitting required holder reports to the Unclaimed Property Administration, which detail properties that have been abandoned. Since holders submitted $509 million of unclaimed property to the state during the two most recent fiscal years, and 75 percent of property escheated is transferred to the general fund, there appears to be an opportunity for adding hundreds of millions of dollars in state revenue and for reuniting owners with their money. 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. The state realized an additional revenue enhancement of $42.3 million from our 2013 audit of the Department of Human Services, Division of Family Development, Child Support Program. If you or members of your staff would like additional information or a personal briefing, please contact me.

Our mission is to improve the accountability of public funds and to improve the operations of government. We serve the public interest by providing members of the Legislature and other policymakers with unbiased, accurate information and objective recommendations on how to better use public resources. In addition to fulfilling our audit mission, we have focused on maximizing the quality of our services and maintaining communication with the Legislature and the agencies we audit. We are committed to providing high quality audit reports. You may be assured we will continue our efforts to improve state government accountability to the Legislature through an effective and constructive audit process.

Stephen M. Eells
State Auditor
March 31, 2016

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INTRODUCTION

BACKGROUND

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

The State Auditor is a constitutional officer appointed by the Legislature for a term of five years and until a successor shall be appointed and qualified. On February 11, 2010, Stephen M. Eells, CPA, was confirmed by a joint session of the Legislature as the State Auditor.

The organization of the office within the legislative branch permits the State Auditor to be independent of the executive and judicial branches of government. This independence is critical in terms of meeting professional standards and in providing fair and objective reviews and audits of governmental operations.

Under the provisions of Article VII, Section I, Paragraph 6 of the State Constitution and N.J.S.A. 52:24-1 et seq., the Office of the State Auditor is required to conduct post-audits of all transactions and accounts kept by or for all departments, offices, and agencies of state government. Reports are submitted to the Governor, the Legislature, and the Executive Director of the Office of Legislative Services.

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

INTRODUCTION

MISSION STATEMENT

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

VISION STATEMENT

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

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

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

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

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

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

ACCOMPLISHMENTS

During calendar year 2015 we identified $41.8 million in new cost savings and revenue enhancements. A schedule of cost savings and revenue enhancements is presented on page 3. Our compliance review on findings related to audit reports issued during the fiscal year ended June 30, 2014 disclosed that 78 percent of our recommendations have been complied with or management has taken steps to achieve compliance. Over a two-year period, the rate of compliance for fiscal year 2013 recommendations rose to 87 percent.

The office performs the annual financial audit of the state's Comprehensive Annual Financial Report (CAFR). The CAFR engagement includes the audit of 140 funds and component units which had a full accrual accounting total asset value of $187 billion at June 30, 2015.

PROFESSIONAL STANDARDS

The Office of the State Auditor's audits are performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that our operations be reviewed every three years. In 2014, the National State Auditors Association conducted a review of our system of quality control which resulted in a Peer Review Rating of Pass, the highest rating attainable. The report received from this review is presented on page 4.

OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF COST SAVINGS AND REVENUE ENHANCEMENTS
REPORTS ISSUED DURING CALENDAR YEAR 2015

REPORT	COST SAVINGS AND/OR REVENUE ENHANCEMENTS (In 000's)
Casino Control Commission and	
Department of Law and Public Safety	
Division of Gaming Enforcement	$ 1,632
Department of Corrections	
Bayside State Prison	485
Department of Human Services	
Division of Aging Services	
Selected Community Based Senior Programs	432
Division of Developmental Disabilities	
Woodbridge Developmental Center	
Payroll Transactions During Closure	6,323
Division of Medical Assistance and Health Services	
Federal Qualified Health Centers	11,900
Department of Law and Public Safety	
Division of State Police	640
Department of Transportation	
Division of Right of Way and Access Management	10,000
Maintenance and Operations	6,400
Department of the Treasury	
Division of Taxation	
Homestead Benefit Program	575
Division of the State Lottery	1,010
Unclaimed Property Administration	2,400
Higher Education Student Assistance Authority	25
New Jersey Housing and Mortgage Finance Agency	27
Total Cost Savings and Revenue Enhancements	$ 41,849

National State Auditors Association

June 6, 2014

Mr. Stephen M. Eells, CPA
New Jersey State Auditor
New Jersey Office of the State Auditor
125 South Warren Street
P.O. Box 067
Trenton, NJ 08625-0067

Dear Mr. Eells:

We have reviewed the system of quality control of the New Jersey Office of the State Auditor (the office) in effect for the period May 1, 2013 through April 30, 2014. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with professional standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with professional standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all design matters in the system of quality control or all compliance matters with the system. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the New Jersey Office of the State Auditor in effect for the period May 1, 2013 through April 30, 2014 has been suitably designed and was complied with during the period to provide the audit organization with reasonable assurance of performing and reporting in conformity with *Government Auditing Standards* in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. The New Jersey Office of the State Auditor has received a peer review rating of *pass*.

L. Scott Owens
L. Scott Owens, CIA, CGAP, Team Leader
National State Auditors Association
External Peer Review Team

Don Dunlap
Donald Dunlap, CPA, Concurring Reviewer
National State Auditors Association
External Peer Review Team

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www.nasact.org

AUDIT REPORTS

TYPES OF AUDITS PERFORMED

Financial Audits

Financial audits are designed to provide reasonable assurance about whether the financial statements of an audited entity are fairly presented in conformity with generally accepted accounting principles. The primary annual financial audit conducted by the office is the state's Comprehensive Annual Financial Report (CAFR) which is published by the Department of the Treasury. In addition, we also publish the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* which is an integral part of the CAFR opinion audit. One other financial audit was issued in calendar year 2015.

Performance Audits

The objectives of this type of audit are to determine whether financial transactions are related to an agency's programs, are reasonable, and are recorded properly in the accounting systems. This type of audit may also focus on specific performance issues. Where appropriate, these engagements may also provide economy and efficiency comments. Audits are selected using a risk-based approach. Larger departments are audited on a divisional, agency, or program basis rather than on a department-wide basis because of their size and complexity. We completed 17 performance audits in calendar year 2015. These audits encompassed $12.2 billion and $4.5 billion of expenditures and revenues, respectively.

Information Technology Audits

The objectives of this type of audit are to determine whether the data maintained by a particular computer system is reliable, valid, safeguarded, and recorded properly; whether agency networks are properly managed to provide for business continuity and the prevention of system abuse; and whether system development and maintenance is performed in accordance with guidelines and best practices. During calendar year 2015 we reported on the Motor Vehicle Commission, Data Security and the Department of Children and Families, New Jersey Statewide Protective Investigation Reporting and Information Tool (NJ SPIRIT).

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

AUDIT REPORTS

School District Audits

N.J.S.A. 18A:7F-6d authorizes the Office of the State Auditor to audit the accounts and financial transactions of any school district in which the state aid equals 80 percent or more of its net budget for the year. In addition, in accordance with N.J.S.A. 18A:7A-57, the State Auditor is authorized to perform a forensic audit of school districts with a general fund deficit and meeting additional specific criteria as stated in the statute. We audited two such school districts in calendar year 2015, reports are pending.

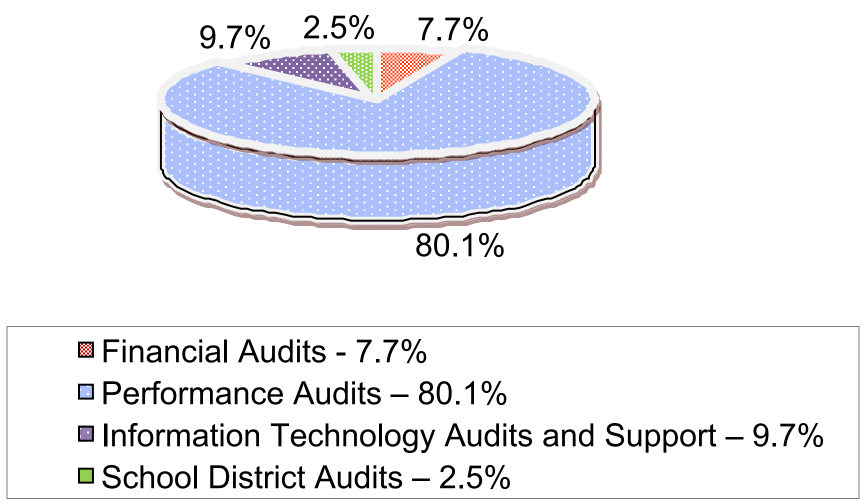
Legislative Requests

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

DISTRIBUTION OF AUDIT HOURS

The distribution of audit hours used in performing audits during calendar year 2015 is depicted on the following chart.

DISTRIBUTION OF AUDIT HOURS



AUDIT REPORTS

HOW AND TO WHOM AUDIT REPORTS ARE ISSUED

Findings and recommendations developed as a result of our independent audits are intended to provide accountability and improvement of government operations. All reports are discussed with agency officials prior to finalization and modifications are made where warranted. Management comments to the final report are incorporated in the document. All issued reports of the Office of the State Auditor are public documents and are available on the New Jersey Legislature's web site at www.njleg.state.nj.us/legislativepub/auditreports.asp.

Reports are statutorily required to be sent to the:

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

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

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

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 6 support staff positions. All auditors must have a bachelor's degree in accounting or a related field and a minimum of 24 credit hours in accounting. Fifty staff members, 55 percent of the professional staff, possess professional certifications or advanced degrees. Working for the office qualifies for the one year intensive and diversified experience needed to become a certified public accountant in the State of New Jersey.

The office provides a minimum of 80 continuing professional education credits biennially and diversified work experience to enhance each individual's professional development. The audit staff attends professional development programs encompassing a myriad of accounting and auditing topics. In addition, staff members actively participate as officers, board members, and committee members of local, state, and national accounting and auditing organizations, including the Association of Government Accountants, Institute of Internal Auditors, National State Auditors Association, and New York/New Jersey Intergovernmental Audit Forum. The office also participates in the national peer review program under the auspices of the National State Auditors Association.

The office continues to provide training in New Jersey Law and Ethics to its staff as well as to other state employees requiring the course. Staff also provided various governmental auditing presentations to university students and international professionals seeking to learn about the operations of the Office of the State Auditor.

AUDIT STAFF

The audit staff is the primary operating group in the office. They plan, conduct, and control the audit engagements and prepare and edit the reports. The audit teams report the results of their work to the auditee on an ongoing basis and at the conclusion of the engagement by means of a written report. In an effort to develop expertise, field managers are assigned specific departments. This practice enhances the quality and efficiency of our audits and ensures all programs are audited within a reasonable cycle. Information technology support is also provided by our IT staff.

The office maintains seven active committees staffed by individuals in various titles to provide guidance in the areas of information technology (hardware/software and information), personnel, planning, policy, sampling, and training. An intranet site is also maintained that contains staff information, budget and appropriation information, and commonly used accounting and auditing research and reference internet sites that the audit staff can access through their computers.

QUALITY ASSURANCE

The quality assurance staff is responsible for technical compliance and quality control, oversight of staff training, and research of technical issues. Quality assurance is achieved through reviews of working papers and reports to ensure adherence to professional standards. The quality assurance staff, through its research of accounting and auditing issues, also responds to surveys, questionnaires, and exposure drafts relating to proposed accounting and auditing standards.

ADMINISTRATIVE STAFF

The administrative staff processes, files, and distributes all reports. This group is responsible for the office library, purchasing and maintaining office supplies, and other general administrative functions.

OFFICE OF THE STATE AUDITOR
STAFF ROSTER
As of DECEMBER 31, 2015

STATE AUDITOR
Stephen M. Eells, CPA
Jean J. Horner, Administrative Assistant

ASSISTANT STATE AUDITOR
John J. Termyna, CPA
Jill Bodnar, Secretary

ASSISTANT STATE AUDITOR
Gregory Pica, CPA
Robyn Boyer, Secretary

AUDIT MANAGERS

Paul R. Baron, CPA
Franklin F. Bowker, MBA
Helen Dublas, CGAP
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David J. Kaschak, CPA, CGFM
J. Robert Malone, MBA
Charles Y. Paslawsky, MAccy
William D. Robinson, CPA
Thomas Troutman, CPA, CIA, CGFM

PRINCIPAL AUDITORS

Daniel Altobelli, CPA, CISA, CEH
Albert Bao, CPA
Ernest W. Barany, CPA, CEH, CPT
Hal Bauman
Kenyona Booker, CGAP
Cynthia Burdalski
Timothy D. Bush, CPA
Donna Castelli
John Coyle, CPA
Tanya Cuccia, CISA, CGAP
Jeffrey DeCicco, MBA, CPA
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Barbara Galager, CPA, CGFM
Robert Gatti, CPA
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Jesskim So
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Stephanie Titus, MBA
Patrick Whalin
Kurt Zadworney

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Christopher Santiago
Brian Sherfesee
Jennifer Suchan
Hiral Suvagiya, MBA, CPA
Justin Toldt
Irene Torunoglu, MAccy, CPA
Shrushti Trivedi

ADMINISTRATIVE STAFF
Pamela J. Puca, Principal Audit Processor
Michael Salberta, Support Services Assistant

IT SUPPORT STAFF
John Garrett, Data Analyst

Certification Legend:

CEH – Certified Ethical Hacker
CFE – Certified Fraud Examiner
CGAP – Certified Government Auditing Professional
CGFM – Certified Government Financial Manager
CIA – Certified Internal Auditor
CICA-Certified Internal Controls Auditor
CISA – Certified Information Systems Auditor
CPA – Certified Public Accountant
CPT – Certified Penetration Tester
MAccy – Master of Accountancy
MBA – Master of Business Administration
MS – Master of Science

ACCOMPLISHMENTS AND RESULTS

SUMMARY

This section highlights seven of the more significant audits issued during the past year that individually contained cost savings and revenue enhancements greater than $1.0 million and collectively totaled $39.6 million. Information on these reports is presented on pages 13 through 31. The office issued six other reports with cost savings and revenue enhancements totaling $2.2 million. Other reports of interest that contain significant findings and observations from five additional audits are on pages 32 through 41. In addition, our reports contain non-monetary findings addressing areas of noncompliance with laws or regulations, weaknesses in internal controls, and economies and efficiencies to improve operations.

All reports issued in calendar year 2015 are identified on a schedule on pages 42 through 43 and are available for review on our website.

ACCOMPLISHMENTS AND RESULTS
SIGNIFICANT COST SAVINGS AND REVENUE ENHANCEMENTS

CASINO CONTROL COMMISSION AND DEPARTMENT OF LAW AND PUBLIC SAFETY DIVISION OF GAMING ENFORCEMENT

State Vehicles

Noncompliance with the Department of the Treasury, Circular Letter 12-11 regarding vehicle assignment and use has enabled the Department of Law and Public Safety, Division of Gaming Enforcement (DGE) to maintain more vehicles than necessary to fulfill official duties. The DGE maintains 109 state vehicles; 20 of which are used by State Police troopers assigned to the DGE. Vehicle expenses, including fuel, maintenance, vehicle lease, and net purchases, totaled approximately $775,000 and $562,000 in fiscal years 2013 and 2014, respectively. This amount includes annual reimbursements of approximately $23,000 to the Division of Criminal Justice (DCJ) for the lease of six vehicles utilized by DCJ staff assigned to the DGE. The DGE has failed to establish adequate controls to monitor vehicle use and to evaluate agency needs which has contributed to an inefficient use of resources.

Vehicle Assignment

The DGE vehicles are classified as pool assignments and should be used collectively by agency personnel, maintain a monthly minimum business usage of 750 miles, and remain at the office location when not in official use. The DGE maintains one office in Trenton, two office locations in Atlantic City, and designated employees are assigned official work stations within a casino. The casinos range ½ mile to 2 miles from the main DGE office in Atlantic City. We found the DGE assigns each vehicle to a pool leader who is the primary driver, uses the vehicle to drive roundtrip between home and work daily, and has a median commute of 65 miles roundtrip to their official work station. Vehicle assignments appear to be based on job title, rather than necessity, as a disproportionate number of vehicles are assigned to those in higher ranking job titles. The DGE contends that all vehicles must be kept overnight at an employee's residence due to the lack of secure parking. Per regulations, if necessary, vehicles could be relocated to employee residences in closest proximity to the DGE's parking facilities; however they are not. In addition, we observed safe parking availability at all DGE office locations, invalidating the need for the vehicles to be relocated overnight.

Vehicle Logs

Per state regulation, vehicle use logs must be maintained and should denote the time and mileage for all stops, including lunch and breaks. The vehicle use log issued by DGE requires starting and ending mileage, destination and purpose, and commuting miles for each entry, in addition to a driver's signature certifying that the information on the log is complete and accurate. Our testing of 109 vehicle logs for a one-month period identified incomplete logs and widespread inaccuracies in the recorded information.

CASINO CONTROL COMMISSION AND DEPARTMENT OF LAW AND PUBLIC SAFETY DIVISION OF GAMING ENFORCEMENT

- Ninety-two percent of the logs prepared by the DGE employees improperly included only one entry per each date, with a starting and ending mileage figure. One hundred percent of the logs prepared by state troopers contained no daily activity, a beginning and ending odometer figure for the month, and a total mileage figure indicating 100 percent business use. None of the logs reviewed indicated times.

- One hundred percent of the destination and purpose entries were vague or blank. We noted four logs with repetitive entries for “field investigation” and “field” completed by employees with administrative functions and no field work requirements.

- Forty-five percent of the logs reflected one driver for the month indicating the improper classification as a pool vehicle. An individual assignment should be justified by formal job duties and maintain a minimum of 1,250 business miles per month.

- The driver’s signature (certification) field was blank on 55 percent of the logs.

- It appears that logs are not maintained in the vehicle and are completed in their entirety at month end. Twenty-two entries indicating business use were recorded on days when that employee charged a full day of leave time. We noted 33 logs where multiple drivers were listed and all entries were completed in the same handwriting. We compared fuel service transactions to the corresponding vehicle log and noted 15 fuel stops when, per the log, the vehicle was not in use. Additionally, four supervisors that we interviewed noted a different location on that particular date on their vehicle log than where we met.

- Twelve vehicles were traded between “pool leaders” with varying commutes during the month allowing each vehicle to reach the required 750 “business miles”.

Commuting

Pool vehicles should not be assigned where the primary purpose is commutation when comparing business miles to commuting miles, per the circular letter. We met with various DGE supervisors who each conveyed that the majority of their unit’s work is performed from a desk and staff routinely reports to a DGE office or assigned casino. Due to the insufficient reporting of the logs, we could not determine employee vehicle use with certainty. However, we relied on beginning and ending odometer figures and our conversation with DGE supervisors regarding work locations to analyze use. Based on the drivers’ number of days worked and median commute for February and June 2014, potentially 77 percent of vehicle usage was for commutation purposes.

CASINO CONTROL COMMISSION AND DEPARTMENT OF LAW AND PUBLIC SAFETY DIVISION OF GAMING ENFORCEMENT

Inaccurate Purchase Requests

The Vehicle Request Justification Forms prepared by the DGE do not accurately reflect vehicle use. The DGE has purchased 96 vehicles, for $1.7 million, since fiscal year 2011. The DGE cites a law enforcement exemption which allows for the purchase of full-size and less fuel efficient vehicles versus compact vehicles, as required by circular letter. Sixty-five of these vehicles were purchased with a police package although only fourteen were in use by the State Police unit as of June 2014. The forms state that all vehicles will be used for undercover investigations; therefore all vehicles are equipped with confidential license plates. However, this description does not apply to the majority of vehicles used by the DGE. The use of confidential plates rather than "SG" plates with a state bumper sticker increases the risk of vehicle misuse without detection.

Potential Cost Savings

The DGE confirmed that vehicle use logs are not reviewed for accuracy or reasonableness. As a result, inaccurate monthly business mileage is submitted to the state's Transportation Services within the Department of the Treasury and used as continued justification to retain and replenish the 109 vehicle fleet. The improper use of DGE vehicles for commuting purposes increases annual cost, accelerates the need to replace vehicles, and unnecessarily increases the risk of liability to the state for potential damage or injury from motor vehicle accidents. Also, if vehicles were properly maintained overnight at the office locations, the DGE would save approximately $300,000 annually in fuel and maintenance costs. Based on our estimate of business use, the DGE could relinquish at least 50 vehicles and save $926,000 in the next replenishment cycle. Additionally, the Casino Control Fund would recognize the proceeds from the disposition of the vehicles.

Underutilized Leased Building

A 63,700 square foot building, located in Atlantic City, primarily occupied and leased by the Casino Control Commission (CCC) since 1996, is underutilized. Prior to legislative change in February 2011, approximately 180 employees worked in the building. When the lease was renegotiated in 2013, the New Jersey Department of Property Management and Construction (DPMC) approved allocations of space to four agencies for a requested total of 157 employees. There are currently 111 employees assigned to the building.

Per statute, the CCC and the DGE should coordinate to promote operational efficiencies, but have not done so with regards to this building, which costs approximately $1.6 million for the annual lease and operating expenses and is 95 percent paid for through the Casino Control Fund. The CCC significantly reduced staff, but did not proportionately relinquish space in this building and is responsible for 40,000 square feet for their 49 employees and includes a public meeting room and area to service the public at a cost of $985,000. In contrast, the DGE occupies 89,000 square feet of office space between three locations, including this building, for approximately 250 employees with office assignments.

We observed ample empty and underutilized space during a walkthrough of the building and confirmed by applying space measurement standards of DPMC. Based on previous occupancy, there is potential for an additional 69 employees, at minimum, to utilize space. If the building was efficiently allocated, the DGE could vacate at least one of the four floors (with 31 to 49 employees per floor) at their main Atlantic City location by relocating employees. This could result in a minimum net annual savings to the Casino Control Fund of $180,000. Additionally, if functions of the CCC and the DGE are streamlined, there is potential for additional cost savings by further consolidating office space.

Indirect Cost Assessment Errors

Calculation errors in the DGE's indirect cost assessment for fiscal years 2013 and 2014 resulted in underpayments of $226,000 to the state's General Fund. The DGE reimburses the state for an allocation of administrative costs of the Department of the Treasury, Department of Law and Public Safety, Division of State Police, and Division of Criminal Justice. An annual indirect cost report is prepared by the Office of the Attorney General's fiscal unit as support for this assessment. The assessment includes a projected amount for expenditures of the current fiscal year and an adjustment for actual expenditures of the fiscal year ended from two years prior. Our review of the indirect cost assessments for fiscal years 2013 and 2014 disclosed the following.

- A fringe benefit rate of 0.35 percent rather than 35 percent was erroneously applied to administrative salaries of the Division of State Police, resulting in an underpayment of $75,000 for fiscal year 2013.

- The fiscal year 2014 indirect cost assessment included an adjustment for actual expenditures of fiscal year 2012. Actual expenditures were mistakenly compared to the full fiscal year 2012 assessment amount (which included an adjustment for fiscal year 2010 expenditures) rather than the projected amount for fiscal year 2012. This error resulted in an underpayment of $151,000 for fiscal year 2014.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
WOODBRIDGE DEVELOPMENTAL CENTER
PAYROLL TRANSACTIONS DURING CLOSURE

Unreasonable and Improper Payroll Payments

As of January 1, 2014, the Department of Human Services, Division of Developmental Disabilities, Woodbridge Developmental Center (WDC) employed 1,092 full-time staff, 156 part-time staff, and 34 temporary staff. Sixty-four percent of the employees were direct care workers, nurses, and therapists. At that time, the WDC housed 237 clients who lived in 12 different cottages. Each cottage housed between 14 and 25 clients. The clients were gradually moved to other developmental centers (78 percent), community placements (21 percent), nursing homes (two clients), or moved out of state (two clients).

The following table illustrates cottage closure dates due to the declining number of clients, the corresponding WDC client census, and the number of employees in pay status other than administration, housekeeping, maintenance, and drivers.

Cottage	Closure Date	WDC Clients at the Time of Closure	Employees in Pay Status Other Than Administration, Housekeeping, Maintenance, and Drivers
Cottage 11	4/22/2014	183	888
Cottage 03	5/29/2014	161	861
Cottage 18	6/24/2014	147	853
Cottage 05	7/9/2014	143	858
Cottage 06	7/9/2014	143	858
Cottage 16	7/29/2014	118	838
Cottage 15	7/31/2014	113	838
Cottage 17	8/22/2014	87	814
Cottage 07	8/28/2014	82	814
Cottage 08	10/27/2014	40	814
Cottage 01	11/13/2014	34	802
Cottage 03 Reopened 8/1/2014	11/30/2014	17	800
Cottage 04	12/11/2014	0	792

An increasing number of employees became idle as the WDC client census declined through 2014. By October 2014, the WDC census was down to 55 clients and most employees were reassigned to the first shift creating housing and parking issues. To accommodate employees without duties, WDC converted a number of buildings into "hubs" equipped with furniture and

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
WOODBRIDGE DEVELOPMENTAL CENTER
PAYROLL TRANSACTIONS DURING CLOSURE

televisions. The first hub was officially opened on October 6, 2014. Also, as a result of the North Jersey Developmental Center closure in June 2014, there were 124 employees who were bumped to WDC, including 82 employees in direct care titles. Since WDC had no need for these employees, they were not assigned direct care or any other specific duties upon arrival. According to WDC management, the employees assigned to hubs generally refused to volunteer for out-of-title work around the center. In November 2014, we observed WDC employees in a hub sitting idle, watching television, or playing card games.

Recognizing the problem, WDC management scheduled employees for trainings and bused employees to their future place of employment for pre-job orientations. The last three clients were moved from WDC on December 11, 2014 at which time, at least 917 employees (excluding those on leave) were still reporting to the WDC.

To determine whether employees were interested in accepting new work assignments prior to January 9, 2015, in October 2014 the WDC had employees fill out early release forms to declare their preferences. Only 54 of the 761 forms provided to us expressed employee interest in an early release. An additional 26 employees submitted two conflicting forms. Due to statutory restrictions, the Department of Human Services instructed the WDC that only employees who bumped into vacancies and who volunteered to accept their new assignments prior to January 9, 2015 were permitted early release from the WDC. There were 211 WDC employees who bumped into vacancies. We found 174 of these 211 employees, who could have elected to transfer out early into vacant positions, were still reporting to WDC on December 12, 2014. In addition, on December 5, 2014, the last day of the pre-job orientation, the Department of Human Services, Division of Developmental Disabilities, New Lisbon Developmental Center (NLDC) in need for additional workforce, requested WDC employees to sign a form declaring whether they were willing to start employment at NLDC before the official WDC closure date. Eighty-seven employees were designated to the NLDC, but only two agreed to an early start.

There were approximately 850 employees who were moved to hubs from October through December, 2014. We estimated that during that time, these employees received $6.3 million in salaries. Our review of the Reduction in Force Final Notices for the WDC employees indicated that the final interview process for approximately 81 percent of the center employees (including approximately 670 of 850 employees in hubs) was completed by the end of October 2014. The latest final notice processed during the following month for the remaining 19 percent of employees was dated November 19, 2014, thereby allowing additional time to complete the process by December 13, 2014. Therefore, the layoff process for WDC could have been completed within the statutory 120 days from the 45-day notice and the requested extension was not necessary.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
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The department estimated that the WDC layoff process for 1,080 employees would have been completed in 147 days. In contrast, it had taken only 74 days to complete the layoff of approximately 950 Department of Human Services, Division of Developmental Disabilities, North Jersey Developmental Center employees, nearly half the time estimated for WDC. Instead of requesting the extension within the WDC layoff plan, the DHS should have waited to file for an extension only if it became evident that one was needed. The extension delayed the effective layoff date from December 13, 2014 to January 9, 2015. Salaries of employees remaining at the WDC during the extended time were approximately $3.2 million, including $2.7 million for idle employees.

We also noted that although most employees were reassigned to the first shift in October 2014, over 330 employees received shift differential adjustments of 25 cents per hour during the following three pay periods and over 160 employees during the fourth following pay period. The adjustments totaled $22,600. Only employees who work evening or night shift are entitled to shift differential.

ACCOMPLISHMENTS AND RESULTS
SIGNIFICANT COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
FEDERALLY QUALIFIED HEALTH CENTERS

Background

Federally Qualified Health Centers (FQHCs) provide comprehensive community-based primary health care to medically underserved populations. Most FQHCs are located in urban or rural areas. They are federally licensed. Federal guidelines regulate FQHC reimbursement payments for services provided to Medicaid beneficiaries and require that FQHCs are reimbursed their reasonable costs associated with providing Medicaid services. State Medicaid agencies are required to pay FQHCs either on a prospective payment system (PPS) or an alternative payment methodology (APM) for face-to-face encounters between a Medicaid beneficiary and one of the center's billable providers. New Jersey utilizes the APM. These rates are adjusted annually by the Medicare Economic Index. Rates are also subject to change when a FQHC changes the services it provides, including adding or closing a location. APM rates currently range from $135 to $150 per visit.

New Jersey, like many other states, contracts with HMOs to deliver health care services to Medicaid-eligible individuals. HMOs subcontract with providers, including FQHCs to provide medical services, and reimburse FQHCs for Medicaid-eligible encounters. The contracted payments from the HMOs to the FQHCs are often less than the amount the FQHCs are entitled to receive under the APM rate. Medicaid regulations require the state to make a wraparound payment for the difference between the HMO/other third-party payments and the APM amount.

As a result of a lawsuit, beginning in 2013, FQHCs must provide claim level data supporting their quarterly invoices requesting wraparound payments. Prior to that time, FQHCs were not providing detailed claim information to the division.

Unsupported Invoices

In calendar year 2011, the Department of Human Services, Division of Medical Assistance and Human Services (division) began requesting FQHCs to provide HMO claim level data prior to paying wraparound reimbursements. If FQHCs were unable to produce this information, the division would calculate the quarterly supplemental (wraparound) payments using the approved HMO data recorded in the New Jersey Medicaid Management Information System (NJMMIS), because encounters in the NJMMIS indicate that an HMO reviewed and processed the claim after determining the individual, service, and the provider were eligible for payment. Prior to this, FQHCs did not provide supporting documentation to the division and the division did not use NJMMIS to calculate the payment, and therefore, there was no review to ensure the accuracy of the information provided. The FQHCs objected to the 2011 claim level review enhancements being conducted by the division and sued the state. The United States District Court ruled that the state could not calculate wraparound payments in this manner and ordered immediate emergency payments to FQHCs in the amount they would have received under the prior methodology. The state appealed and in calendar year 2013 the United States Court of Appeals

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
FEDERALLY QUALIFIED HEALTH CENTERS

overturned the lower court and did require FQHCs to provide claim level detail supporting the encounters reported to the division with the quarterly wraparound invoices. This ruling requires FQHC claims be submitted to the HMOs' claim processing system for an HMO eligibility and payment determination prior to the FQHCs submitting the encounter to the division for a wraparound payment. In our testing of activity prior to the court ruling, we compared FQHC quarterly invoiced amounts for service dates from July 2010 through December 2012, totaling $96.5 million, to the NJMMIS. We determined that the state reimbursed FQHCs for 141,837 encounters totaling $9 million in wraparound payments for encounters that were not approved by the HMOs in the NJMMIS.

Since the 2013 court ruling, any request for a wraparound payment by an FQHC must be properly supported by claim data; otherwise it is determined to be incomplete and ineligible for processing. The following chart summarizes wraparound reimbursements after the division's review process.

1st Qtr. 2013 through 2nd Qtr. 2014 as of 10/17/2014

	Encounters	Percentage Denied	Wraparound
Requested by the FQHCs	844,039		$68,622,296
Not Approved by HMO	44,602	5.29%	
Not Processed by HMO	40,542	4.80%	
Incorrect Medicaid ID #s	7,990	0.95%	
Non Billable Encounters	2,382	0.28%	
Duplicate Encounters	3,070	0.36%	
Previously Paid	13,337	1.58%	
Total Denied	111,923	13.26%	$15,698,524
Total Validated and Paid	732,116		$52,923,772

After the court ruling, $15.7 million or nearly 112,000 encounters (13.3 percent of the requested encounters) were denied payment. Prior to the court ruling, the division would have paid for these ineligible encounters.

In addition, we requested claim data directly from 17 FQHCs, for three quarters from 2010 to 2012, a period when they were not required to submit documentation. The centers could not provide adequate supporting documentation. Differences were noted in the number of encounters, receipt amounts, and prior period adjustments that were being reported by the FQHCs.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
FEDERALLY QUALIFIED HEALTH CENTERS

Obstetrics - Gynecology (OB/GYN) Reimbursements

In response to FQHC concerns and in an effort to support the centers to perform OB/GYN services, in 2008, the division began excluding OB/GYN deliveries and specific surgical services from the APM rate, and instead, began reimbursing separately at a higher rate that is more reflective of the actual costs of these services. Although the OB/GYN deliveries and surgical services are paid a separate reimbursement rate, four FQHCs' APM rates still include costs related to OB/GYN services. We determined that the division overpaid these FQHCs $267,000 for all encounters from the third quarter of calendar year 2010 through the first quarter of 2014 because they were reimbursed at the inflated APM rate.

Visits Per Day

The federal *Medicare Claims Processing Manual* for Rural Health Clinics and FQHCs, Chapter 9, section 20.1 states, "Encounters with more than one health professional and multiple encounters with the same health professionals which take place on the same day and at a single location constitute a single visit… unless the patient has a medical visit and a clinical psychologist or clinical social worker visit." New Jersey Administrative Code (N.J.A.C.) states, "Normally, only one medical encounter is covered per beneficiary, per day. More than one medical encounter is covered, however, when the beneficiary is seen by more than one licensed practitioner for the prevention, treatment or diagnosis of different injuries or illnesses, and practitioners of appropriate different specialties are involved." Based upon our review of both criteria, it appears that the N.J.A.C. is not in agreement with the federal requirements because the N.J.A.C. allows for more than one medical encounter being covered when the beneficiary is seen by more than one health professional for different illnesses in the same day, while the federal requirement only allows for one visit per day whether the beneficiary is seen by one health professional or more than one health professional in the same day. As a result, the division over reimbursed FQHCs $1.7 million in wraparound payments for 12,400 encounters from the third quarter of 2010 through the fourth quarter of 2012 because the N.J.A.C. 10:66-4.1 is not in compliance with the federal requirements. The administrative code needs to be amended to comply with the federal requirements.

Receipts from Third Parties

Medicaid beneficiaries may have access to other health care (third-party) coverage in addition to qualifying for Medicaid. All receipts from third-party coverage and co-payments from Medicaid HMOs, as well as Medicaid beneficiaries, are to be subtracted from the quarterly invoices to determine the amount the division will pay to the FQHCs for the wraparound payment. We have determined that from July 1, 2010 through June 30, 2014, the FQHCs quarterly invoices and support did not identify third-party receipts in the amount of $933,000. The invoices only identified receipts from the HMOs, making it difficult to determine whether or not third-party receipts were properly deducted from the requested invoiced amounts.

DEPARTMENT OF TRANSPORTATION
DIVISION OF RIGHT OF WAY AND ACCESS MANAGEMENT

Access Management - Developer Agreements

A developer agreement is an agreement between the Department of Transportation (department) and a developer whereby the developer agrees to reimburse the department for state-service costs. These costs include those associated with the review of plans, construction engineering, inspection services, legal costs associated with the agreement, and any costs incurred prior to the execution of the agreement for concept, access application, and preliminary plan review, and issuance of access permits. The costs consist of actual wages, plus a percentage for fringe benefits and administrative costs, for state employees' time spent working on the application, as well as any related direct expenses, including costs associated with the execution of the agreement. Any fees paid by the developer as part of the access application and concept review processes are credited against the developer agreement reimbursable amount. There were 51 access permit applications with associated state-service costs during our audit period that had a developer agreement. The division will collect $7.5 million in reimbursable state-service costs for these applications.

There were 577 applications with total costs of more than $16 million that did not have a developer agreement. While many of these applications had state-service costs less than their combined application and permit fees, 222 had state-service costs of more than $25,000 each. The total cost for these 222 applications exceeded the maximum application and permit fees by at least $10 million. Moreover, 79 of these applications had costs exceeding $50,000 each. The total cost for these 79 applications exceeded the maximum application and permit fees by at least $6.7 million.

The administrative code requires a developer agreement as a condition of an access permit under five specific conditions. The 222 applications without a developer agreement did not meet those conditions. However, the department may also require a developer agreement as a condition of an access permit when the department, in its sole discretion, determines that this condition is in the public interest. All that is required is notification to the applicant such a determination has been made. When the permit is issued, execution of the developer agreement shall be one of the conditions. In fact, to its credit, the department has recently required an agreement for any application involving a traffic signal even though this is not one of the conditions listed in the code.

DEPARTMENT OF TRANSPORTATION
MAINTENANCE AND OPERATIONS

Traffic Claim Reimbursements

The traffic claims reimbursement process attempts to recoup money for damages from accidents involving state property. We found there have been a significant number of automobile crashes involving damage to state property for which a traffic claim for reimbursement has not been submitted. In fiscal year 2014 alone, there were over 8,000 unclaimed crashes. If the Department of Transportation (department) submitted claims for half of the crashes, they could have potentially received $5 million in additional reimbursements. It should be noted that the department has 10 years to submit claims for reimbursement.

The claims reimbursement unit relies on receiving notification from insurance companies to generate the leads to initiate new claims. Meanwhile, a separate unit within the department enters police report information into a database for all accidents that occur on New Jersey state roads, interstates, and highways that is not used by the reimbursement unit to identify potential claims.

Permit Violations

Highway occupancy permits are required when any activity is undertaken over, under, or within any portion of state highway right of way or property under the jurisdiction of the department, and standards need to be met. When a company is guilty of a violation of the permit standards, it is liable for a fine. A majority of the fines have been issued to utility and communication companies and have been unpaid. These fines increase at a rate of $100 for each day a violation goes unrepaired. The total fines for double pole infractions have reached $1.4 million. The violation occurs when a company does not properly remove the damaged pole when installing a new supportive pole. This occurs most often when a pole is used jointly by two companies. When companies are issued a permit to upgrade or replace a joint pole, the responsibility of removing the damaged pole lies with the permit holder. The non-removal of damaged poles can create a hazard to the traveling public.

The responsibility of performing permit inspections and reviews is inconsistent across the three regional offices. The Central regional office has four inspectors who perform permit inspections and reviews. They are also active at issuing violation fines as needed. However, another region has ceased issuing the fines for violations because of the lack of collection. The department has tried other alternatives to reach an agreement with the utility companies. The damaged poles have not been removed and the public safety hazard has not been eliminated. The department has followed proper state debt collection procedures and has forwarded debt to the Department of the Treasury, Division of Revenue and Enterprise Services.

DEPARTMENT OF TRANSPORTATION
MAINTENANCE AND OPERATIONS

Observation

Procurement Process

The department currently has contracts that are expiring or operating under an extension. The Division of Purchase and Property, within the Department of the Treasury, was created under N.J.S.A. 52:18A-3 and serves as the state's central procurement agency. Their mission is to professionally and ethically procure the best valued products and services in a timely and cost effective manner in accordance with state laws and regulations, to enable client agencies to meet their objectives.

Currently, the contract over the electrical supplies utilized for the maintenance of highway signs, lighting, and traffic control is expired, as well as the contract used for replacement parts of heavy machinery. Additionally, the contract for salt has a term that expires in January 2016, the middle of the snow season, which could put the state at a competitive disadvantage when renewing. These contracts are vital for Maintenance and Operations to conduct business and protect the public safety. These issues occur because of the length of time it takes to bid these contracts. During the audit, it was noted that there were four contracts in the procurement process which took in excess of two years to complete the contract award. These types of lags hinder the department from operating efficiently.

The department stated that a major cause for these issues is a backlog of purchase requests at the Division of Purchase and Property. The Department of Transportation has procurement authority; however, state regulation limits the authority to professional services, which includes design and engineering disciplines. These disciplines have allowed the department to perform major procurement for road and bridge projects. If the purchasing regulations were revised to allow the department additional procurement authority, the department believes this could potentially improve the timeliness and reduce the costs of contracts.

DEPARTMENT OF THE TREASURY
DIVISION OF THE STATE LOTTERY

Debt Recovery

The Department of the Treasury, Division of the State Lottery (division) processes claims for all lottery prize winners of $600 or more. However, the division did not verify if all of those winners had debt owed to the state. New Jersey Statutes require that lottery winners of prizes more than $600 have their winnings applied to any outstanding debt to state agencies or institutions. As mandated by law, a match is performed for lottery winners to determine who has outstanding child support, defaulted student loans, or overpayments of certain public assistance. The division also manually checks the Department of the Treasury's Set-Off of Individual Liability (SOIL) system for prize winners over $250,000 to determine if debt is owed to the state. However, a SOIL match is not performed for winners of lesser amounts. The SOIL database consists of individuals who have outstanding tax debts, obligations to other state agencies, or debt to the federal government. We noted up to $890,000 in prize winnings from July 1, 2013 through July 28, 2014 that could have been recovered for outstanding SOIL debt had a match been completed.

Overtime Costs

The New Jersey Administrative Code states that employees who work outside of their regular job duties and work hours will be paid at a special project rate. Employees who work the evening, weekend, and holiday drawings receive extra compensation. The responsibilities for the drawings include supervisors, assistants, security, and pool closings. Effective July 13, 2013, the Civil Service Commission (CSC) approved a special project rate of $39.08 per hour for drawing supervisors. They also approved a special project rate for those responsible for pool closings and security of the Powerball and Mega-Millions drawings of $27.87 per hour.

A test of overtime for the period of July 1, 2013 through July 11, 2014 noted four employees were paid at a special project rate, seven employees were paid a special project rate for the first five extra hours of the workweek and an overtime rate for any additional hours, and 44 employees were paid at an overtime rate. Since employee overtime rates are based on the employee's annual salary, employees performing the same drawing functions received as much as $30 per hour differential in overtime pay. Based on the fiscal year 2014 rates approved by the CSC and employee job functions for drawings provided by division management, overtime was overpaid by approximately $120,000. The Department of the Treasury and the division are in communication with the CSC to approve new special project rates for each job responsibility to ensure that employees working the same drawing functions will receive the same hourly rate.

ACCOMPLISHMENTS AND RESULTS
SIGNIFICANT COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF THE TREASURY
DIVISION OF THE STATE LOTTERY

Observations

Sales and Marketing Contract

The new sales and marketing contract between the Division of the State Lottery (division) and Northstar New Jersey Lottery Group, LLC (Northstar) includes annual calculations that establish whether Northstar will receive incentive compensation or be required to make shortfall payments to the state. The calculations are based on contracted yearly net income levels. The initial net income level, or base level, was determined from the division's performance prior to the contract and was adjusted for a compounded annual growth rate (CAGR) of 0.9 percent. The CAGR is the growth the division expected to achieve had they continued to manage sales and marketing. Achieving these levels would result in incentive compensation. As part of their bid, Northstar was also required to submit their own net income targets for each year, which if not achieved, would result in the assessment of shortfall penalties.

Northstar's services began on October 1, 2013, representing nine-months of fiscal year 2014 activity. During this period, the division achieved net income of $705.5 million compared to a base level target of $717 million and the Northstar net income target of $760.9 million. This resulted in a shortfall calculation of $33.5 million; however, shortfall payments are capped at two percent of net income in any given year, or $14.1 million based the nine-month stub year 2014 results.

The state can terminate the contract if shortfall calculations are more than ten percent of the Northstar net income targets for any two consecutive contract years or any three contract years in a five-year period. Although the contract is in its initial stages and the 2014 shortfall calculation was less than ten percent of the net income target, the division should continue to monitor performance to determine if the Northstar contract benefits the state.

Cash4Life Multi-State Game

On June 16, 2014, the first drawing was held for Cash4Life, a multi-state game, in conjunction with the New York Lottery. The drawing is held twice per week and has the top prize of $1,000 a day for life and second prize of $1,000 a week for life. As opposed to other drawings, this is the only drawing game in New Jersey that the top prizes are based on a fixed amount and not based on the game's sales.

Prize expenses are allocated to New Jersey and New York based on the percentage of sales in the respective states. The Cash4Life game rules project prize payouts to be 55 percent of sales. Through August 31, 2014, prize payouts allocated to New Jersey were $22.8 million compared to $23.3 million of New Jersey sales (98 percent).

DEPARTMENT OF THE TREASURY
DIVISION OF THE STATE LOTTERY

Other states also conduct similar games where the top prizes are based on a fixed amount. Six states in the New England region have a drawing game called Lucky for Life. The top prize for this game is also $1,000 a day for life. However, the odds for the top prize in the Lucky for Life game are 1 in 41 million compared to the Cash4Life's odds of 1 in 21 million. Lucky for Life game rules indicate that 60 percent of sales are expected to be expended for prize purposes.

The first 22 drawings for Cash4Life resulted in five top winners. Lucky for Life had four top winners for the first 22 drawings but has only had three top winners in its last 235 drawings. We acknowledge that the game is in its early stages and more time is needed to develop historical data and trends. In light of the early prize payouts, the division should continue to evaluate the Cash4Life game to determine if it is meeting its projected prize payout to sales ratio.

DEPARTMENT OF THE TREASURY
UNCLAIMED PROPERTY ADMINISTRATION

Outreach

Online Advertising

The Unclaimed Property Administration (UPA) provides the ability for potential owners to search for unclaimed property through the use of a third-party website. For unclaimed property to be reported on the website, it must either have a cash value of at least $100 or consist of at least eight shares of stock. Property must have been previously advertised in the newspaper, the name and address must be listed, and the property must be marked as claimable in the system. A review of unclaimed property as of July 17, 2015 detailed up to 304,000 cash properties valued at $274.4 million and up to 12,000 stock properties totaling 10 million shares that should have been included on the website, but were not. These properties were coded as not to be included in the web file when data was converted to a new computer application in 2005. As a result, owners are unable to search for these properties on the website. However, the unlisted properties would be included in claims processing if the owners had additional property for which they filed claims. A random sample of 33 properties on the excluded list disclosed 14 owners having other properties reported on the website.

Newspaper Advertising

New Jersey Statutes require the UPA to publish newspaper advertisements providing the name and address of the owner of newly reported unclaimed property no later than November 30, or in the case of life insurance property, no later than September 1. The UPA must advertise in each county's highest general circulation newspaper of the last known address of the reported owner. The UPA expended $1.1 million on newspaper advertisements in fiscal year 2015.

Recent New Jersey Press Association (NJPA) and Audit Bureau of Circulation data disclosed that newspaper advertisements are reaching fewer people due to the declining circulation of newspapers. The data shows that newspaper circulation declined approximately 36 percent from 1993 to 2009. We analyzed United States Census Bureau and NJPA data and estimated that paid circulation to New Jersey residents over age 18 is between 12 percent and 14 percent per day.

Twenty-three states do not require owners of unclaimed property to be reported in newspaper advertisements. Changing the statutory requirement would allow the UPA to use additional funds for other forms of outreach.

Holder Reports

Holder reports are submitted to the Unclaimed Property Administration (UPA) detailing properties that have been abandoned based on time periods listed in the New Jersey Statutes. Businesses that are incorporated in New Jersey or have a business presence in New Jersey are

DEPARTMENT OF THE TREASURY
UNCLAIMED PROPERTY ADMINISTRATION

required to submit holder reports annually. UPA policy states that businesses not remitting unclaimed property in a given year must submit a negative report indicating that they do not possess New Jersey unclaimed property. Many of these entities would also be required to file New Jersey Corporate Business Tax (CBT) returns.

The UPA received approximately 29,000 holder reports with a cash value of $508.9 million during fiscal years 2014 and 2015. Our match of reports submitted in those two fiscal years to businesses that filed New Jersey CBT returns for tax year 2014 noted 116,000 businesses that did not submit a report, of which 32,600 had gross receipts greater than $1 million. The UPA has a 13-person audit unit that searches for unclaimed property not previously reported. During fiscal year 2015, 178 audits were completed whereby $44.8 million in unclaimed property was found. However, considering the number of businesses not submitting reports, there is significant risk that material unclaimed property remains outside the trust funds.

Our review of holder reports submitted between July 1, 2013 and December 31, 2014 noted 127 reports totaling $1.2 million that had not yet been properly balanced as of May 20, 2015. We had included fiscal year 2013 in our review as a measure to determine if holder report balancing was untimely. A report is balanced when the summary of the report agrees with a detailed listing of the property on the report, and the property reported agrees to the property remitted by the holder. Claims cannot be paid or advertised if the holder report is not balanced. After informing the UPA of our results, they balanced these holder reports.

Debt Recovery

The Department of the Treasury, Division of Taxation Set-Off of Individual Liability (SOIL) program withholds payments to taxpayers who have outstanding tax debts, obligations to other state agencies, or debt to the federal government. The Unclaimed Property Administration (UPA) is not required to verify if claimants have any state or federal debt. A review of the SOIL database noted that up to $1.3 million of claims paid in fiscal year 2015 could have been recovered for outstanding SOIL debt had a match been completed. Of the $1.3 million, $152,000 was paid in interest.

Observation

Life Insurance Policies

New Jersey does not have a law that requires insurance companies to perform a match with the Social Security Administration's Death Master File (DMF) to determine if life insurance policy holders are deceased in order to distribute money to beneficiaries. A 2015 legislative update by the National Association of Unclaimed Property Administrators indicates that 18 states have passed legislation requiring this match to be performed. A 2011 investigation by the State of New York

DEPARTMENT OF THE TREASURY
UNCLAIMED PROPERTY ADMINISTRATION

resulted in approximately 89,000 payments totaling $665.7 million to beneficiaries who were unaware of these policies. Of the $665.7 million, payments of $206.2 million were made to residents of New York.

The Unclaimed Property Administration is currently auditing several life insurance companies to determine if these companies have unclaimed life insurance proceeds that can be turned over to New Jersey beneficiaries or escheated to the state. Our analysis of holder reports noted $41.6 million and $60.5 million submitted by life insurance companies in fiscal years 2014 and 2015, respectively. If state law required life insurance companies to perform matches to the DMF, additional property would be distributed to beneficiaries or escheated to the state.

DEPARTMENT OF ENVIRONMENTAL PROTECTION
GREEN ACRES PROGRAM

Project Inspections

The Green Acres Program is not current in its required inspection of properties. According to N.J.A.C. Title 7 Chapter 36 - 25.1(c), the Department of Environmental Protection shall inspect funded parkland every three years to ensure compliance with the terms of the project agreement. There are 3,425 total properties on the Bureau of Stewardship's inspection database that are required to be inspected on a three-year cycle. However, 1,826 inspections are currently overdue. The backlog of inspections is primarily due to manpower issues, as only two part-time employees are responsible for inspecting all properties. When inspections are not completed on time, the risk that properties are not being used for conservation and recreation as intended is increased.

DEPARTMENT OF LAW AND PUBLIC SAFETY
DIVISION OF STATE POLICE

Observation

Organizational Inefficiencies

Management throughout the division consists of enlisted and civilian personnel. Civilian personnel follow a career path associated with their education and experience. Enlisted members, while highly educated, follow a career path of rank associated with frequent movement throughout the division. The average length of an assignment for enlisted members is 20 months. Change of assignments helps to develop new skills, but short tenures in leadership positions may impair organization efficiency.

We reviewed 4,804 completed assignments from 2001 to 2014 for enlisted members that have overseen organizational units at various levels. Almost half (2,352) of the assignments ended in less than one year. There were 234 leadership assignments shorter than 30 days and 680 shorter than 90 days. The following are examples of assignment histories typical of the division.

- A unit within the Special Investigations Section had 10 unit heads in nine years, of which only two lasted more than one year.
- A unit within the Field Operations Section had five unit heads in two years.
- One Region Commander's Office had 20 Commanders in nine years, while the average term of all Region Commander assignments was just 172 days.
- One station had 15 Commanders in 10 years.
- Office of Professional Standards had four Commanding Officers in 28 months.
- Human Resources Section had nine Commanding Officers in 10 years, of which six held the position for less than one year, and of which four had no prior assignments within the Human Resources Section.

Leadership commitment is necessary to develop and achieve long-term objectives, and to establish and enforce internal controls. Short-term assignments make it difficult for enlisted personnel to gain the knowledge necessary to become proficient in the area they supervise. The lack of continuity in management also affects the productivity of employees. Employees must take a leadership role during the supervisor's initial adjustment period which takes time away from their regular duties.

DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION
HOMESTEAD BENEFIT PROGRAM

Home Sales

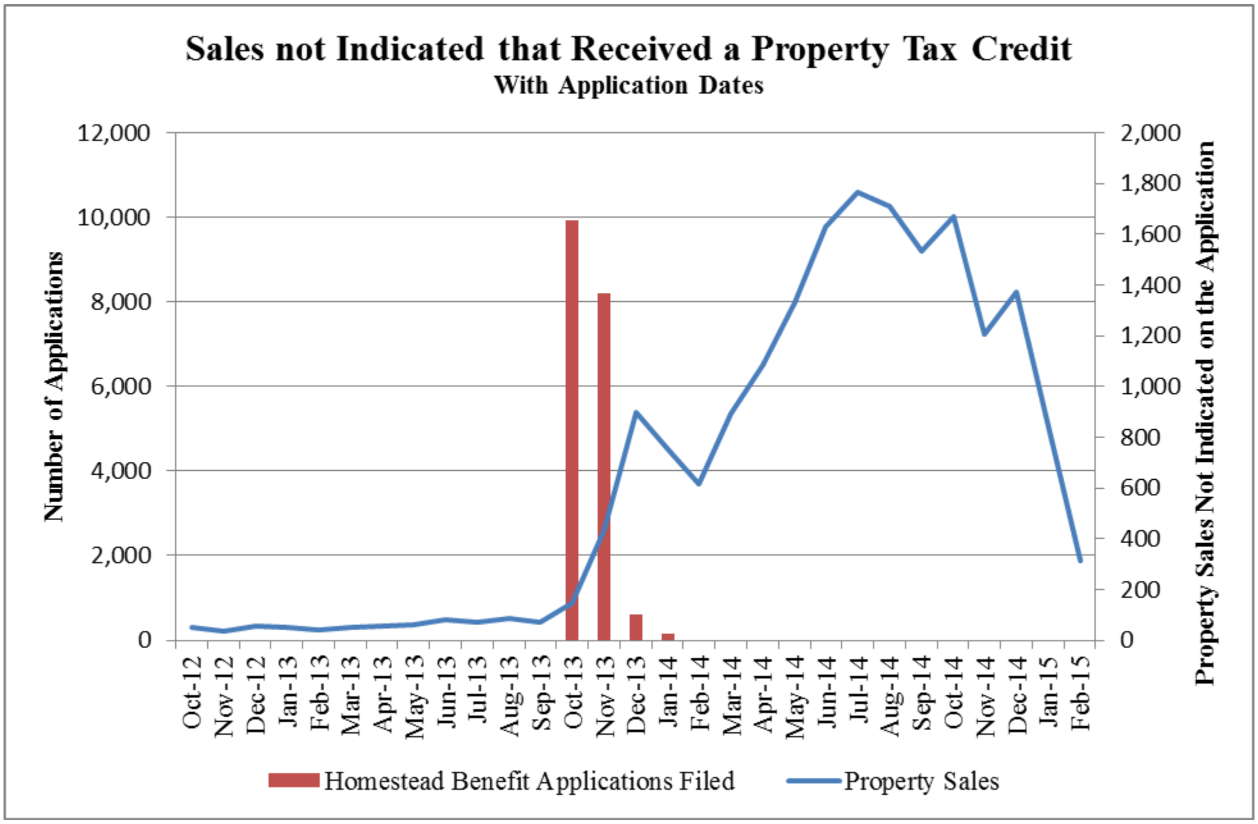
New Jersey Statutes state that the Director of the Department of the Treasury, Division of Taxation (division) "shall provide a homestead benefit under this act as a credit only if the director can ensure that the benefit will be applied to the appropriate taxpayer. Otherwise, the director may remit a homestead benefit to an eligible taxpayer as a rebate."

The 2012 Homestead Benefit application provided instructions for applicants to check a box to indicate if they sold or planned to sell their home, thereby initiating a check or direct deposit so that benefits would be received. This would ensure the new owner of the home did not get a homestead benefit intended for another party. Homestead benefits for 2012 were credited to eligible properties in May 2015, 18 months after applications were mailed. This time lapse increased the number of sellers that did not have the opportunity to indicate a home sale on their application, which was acknowledged by the division. The application instructions stated that if they did not check a box to indicate a home sale, they were to negotiate the benefit at the real estate transaction closing.

We contacted ten title agents from various agencies regarding their experience with the New Jersey Homestead Benefit. None of the title agents surveyed included the homestead benefit in any real estate transaction prior to March 2015, the period when the state notified municipalities that 2012 payments would be sent by May 1, 2015. Additionally, seven of the title agents surveyed were not aware the homestead benefit application instructed the taxpayer to negotiate the credit during the real estate transaction. We also contacted five real estate attorneys and found none included the homestead benefit in any real estate transaction before the dollar amount was available. Therefore, there was no indication that the homestead benefits were part of real estate closing transactions prior to credits being applied to property tax bills.

Consequently, it appears that certain homeowners who sold their homes after applications were submitted and did not indicate so on their application may not have received their homestead benefit. We requested sales data from the division for the period October 1, 2012 to February 28, 2015 and matched it to homes that received the benefit as a property tax credit. Our match resulted in 19,000 homestead benefits totaling $10 million credited to the property tax bill where the current owner was not the benefit applicant. We found 82 percent of these home sales occurred during calendar year 2014. The final application deadline was January 31, 2014. The following chart provides an illustration.

DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION
HOMESTEAD BENEFIT PROGRAM



The chart shows sales not indicated on the application started to sharply increase five months after applications began to be submitted. This may be attributed to the fact that a sale was not considered at the time of filing the homestead benefit application.

Currently, 2013 Homestead Benefits are anticipated to be credited on May 2016 property tax bills, six months after the initial application deadline. Based on 2012 Homestead Benefit data, we estimate that even if tax year 2013 benefits are distributed timely, at least $2 million will not be paid to the proper applicants because home sales may not be indicated on applications. This considers an estimated nine percent decrease of benefit payments per the 2016 Appropriations Act. We estimate this amount could increase an additional $2 million to $6 million if benefits were delayed three to twelve months, respectively, beyond May 2016. Homestead benefits for tax years 2011 and 2012 were paid 13 and 17 months after the initial application deadlines, respectively.

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The division uses property sales data to update mailing addresses for homestead benefit applications; however, they do not utilize the sales data again prior to releasing homestead benefit payments to municipalities. Although the risk existed that applicants would not take the benefit into account during settlement, it was the division's decision to issue the benefit as a credit on the property tax bill of the person who owned the property on the date the benefit was paid, as stated in the application instructions.

Deceased Applicants

The division did not have access to accurate death data when 2012 Homestead Benefits were approved for payment. Prior to May 2015, if individuals did not file a federal or New Jersey tax return, the division did not have current data on file. We analyzed income data reported on 2012 Homestead Benefit applications and found 262,178, or 33 percent of recipients, were not required to file a tax return because they reported zero New Jersey taxable gross income. Eighty percent of those reporting zero taxable income included at least one spouse 65 or older.

Although a surviving spouse may remain eligible, if the primary applicant died prior to October 1, 2012, the applicant did not meet eligibility requirements for the 2012 Homestead Benefit. We performed a match and found 4,853 benefits paid to primary applicants with a date of death prior to October 1, 2012. Benefits issued to these applicants totaled approximately $2.6 million. Of these applicants, 127 died more than 20 years ago and 16 would be at least 110 years old.

We judgmentally selected 30 primary applicants to test them against the division's tax records. We found six applicants were ineligible; three of the six were paid to the estate, two were paid to the deceased (with no surviving spouse), and one was paid to an individual with an unrelated name on file. The remaining 24 appear to be paid to a surviving spouse and require further proof of identification, residency, and income prior to determining eligibility.

As a result of our match, the division selected 27 of the 4,853 individuals and researched them separately. They found seven ineligible payments to the deceased, seven whose social security numbers were inconsistent with those on file, twelve appeared to be filed by a surviving spouse, and one status was indeterminable.

MOTOR VEHICLE COMMISSION
DATA SECURITY

Data Integrity

Data integrity is defined as the accuracy and consistency of stored data. Data integrity is imposed within a database at its design stage through the use of standard rules and procedures and is maintained through the use of error checking and validation routines. Our audit procedures focused specifically on the Driver Owner database, which is one of the primary databases in the Comprehensive (COMP) system and contains all records related to individuals and businesses that either have a Motor Vehicle Commission (MVC) license of some type, are a vehicle owner, or have committed a motor vehicle violation in the state.

Because of the eventual implementation of the MATRX system, our audit work focused primarily on the existing data at rest in the COMP system databases. Select error checking and validation routines that currently exist in the COMP system were tested, where appropriate, to verify issues found in the data at rest. This data will eventually be migrated into the MATRX system databases, so integrity issues with the current data should be addressed now to avoid migrating erroneous or incomplete data into the new application.

Our analysis of the Driver Owner database found 8,373,621 active records, which are defined as records that are all of the following: complete, not designated as deceased or canceled, not corporate records, and having an expiration date after the date of the data extract obtained from the MVC. This total consists of 5,905,228 automobile drivers license records; 2,126,851 identification, owner-only, and violator-only records; 261,056 commercial drivers license records; 76,479 drivers permit records; 3,123 handicap identification records; 552 moped-only license records; 216 motorcycle-only license records; and 116 agricultural machinery-only license records.

According to the MVC, an automated check of the validity of the Social Security number (SSN) for individuals with a license or identification document was implemented in November 2003. All records that existed in the COMP system prior to that date were matched with the Social Security Administration's (SSA) records off-line and their validity flagged in the COMP system based on the results. From November 2003 to August 2005, the COMP-to-SSA check was optional and had to be manually initiated by an MVC employee. Since 2005, license and identification documents are issued only after a real-time automatic check of the SSN is done to the SSA database. Based on the result of this check, the record is labeled as valid or invalid. The MVC has the ability to override an invalid result based on further evidence. The SSA verification check that is run on a SSN is done the first time the number is entered into the COMP system, and is not rechecked periodically. Therefore, once a SSN is validated, it is not re-verified each time a license is renewed, nor is a periodic check done to identify invalid SSNs. Specific reportable conditions follow.

MOTOR VEHICLE COMMISSION
DATA SECURITY

Social Security Numbers – Deceased Individuals

We performed an independent match from the Driver Owner database to the Social Security Administration's (SSA) VERIS system and found 6,814 licenses or identification documents that were issued and recorded in the COMP database where the SSN was reported by the VERIS system as belonging to a deceased individual. These records were classified in four different categories based on two factors: whether the last name on the Driver Owner database record matched the VERIS system record for the same SSN and whether the date of issue was before or after the date of the individual's death as reported by the VERIS system. The following were the results.

- There were 5,844 documents issued where the last name on the Driver Owner database record matched the VERIS system record and the date of issuance was prior to the VERIS system record date of death.

- There were 644 documents issued where the last name on the Driver Owner database record did not match the VERIS system record and the date of issuance was prior to the VERIS system record date of death.

- There were 56 documents issued where the last name on the Driver Owner database record matched the VERIS system record and the date of issuance was after the VERIS system record date of death.

- There were 270 documents issued where the last name on the Driver Owner database record did not match the VERIS system record and the date of issuance was after the VERIS system record date of death.

The effect of each of these categories is slightly different, though in all cases there is an increased risk that a license or identification document may be in the hands of someone other than the intended person. Of greater concern are the license and identification records issued after the date of death.

Invalid Social Security Numbers

Our analysis of the active records in the Driver Owner database found 1,364 records where the Social Security number (SSN) was invalid per our independent match with the VERIS system and is not associated with an individual reported as deceased. Of these records, 953 had SSNs that were overridden by MVC personnel to validate the SSN, 34 records have not been validated by the MVC, 11 records were previously labeled in the database as valid, and 366 records were flagged as invalid in the Driver Owner database. Based on our discussions with MVC personnel, any record that returns an invalid SSN flag will not allow a document to be issued.

MOTOR VEHICLE COMMISSION
DATA SECURITY

License or identification documents tied to invalid SSNs weaken the integrity of the data and increase the risk of a fraudulent document being issued. MVC overrides of SSNs that return as invalid could also increase this risk.

Non-Expiring Licenses and Identifications

Our analysis of the active records in the Driver Owner database found 32 records with no expiration date. Of these, 30 are identification documents, one has no vehicle class and may be a driver permit, and one is an automobile drivers license. Discussions with MVC personnel revealed that all license and identification documents should have an expiration date with a maximum of four years.

License or identification documents that do not expire increase the risk of the documents containing incorrect information, bypassing data integrity controls, or being used fraudulently.

Incomplete Records

Our analysis disclosed 1,688,311 incomplete records in the database which exist because of a conversion error from the previous system 25 years ago. Records that were not properly converted were labeled as "VIOLATOR ONLY – NO D/L" in the name field. For many of these records, the only information was the drivers license number. It was thought these records could be repopulated as individuals came in to renew documents or perform other tasks. Analysis of these records found that they belong to either non-license documents or expired license documents.

Incomplete or inaccurate records increase the risk of duplicate records existing in the database, increase the storage space needed and, with the development of the replacement for the COMP system, would increase the chance of a conversion error to the new system because of possible data validation rules in the new system.

Corporate Records

There are 725,264 active corporate records in the Driver Owner database that appear to have the company's Employer Identification number (EIN) in the SSN field. Based on a match to known valid EIN prefixes, we found that 621,321 of these records contained an invalid EIN number. Of the 725,264 records, almost all had a SSN value flag in the database indicating the record had not been validated, and the remaining records had an SSN value flag indicating that the field was overridden by the MVC. The current MVC SSA validation process is only able to validate an individual's SSN, and does not include EIN numbers. The MVC has not performed an independent match to valid EIN prefixes to identify this issue. Incorrect or fraudulent information in the database increases the risk that an unauthorized document could be issued.

MOTOR VEHICLE COMMISSION
DATA SECURITY

Duplicate Social Security Numbers

The Driver Owner database contains active records with a SSN that is duplicated on at least one other record of the same vehicle class. There were 1,070 records associated with a SSN that was duplicated only once and the license class is the same on both records. Of these, 564 were automobile drivers license records, 352 were identification records, 152 were permit records (no license class), and 2 were commercial license records. There were also 1,594 records associated with a SSN that was duplicated more than twice and the license class is the same on at least two of the records. Of these records, 1575 were owner or violator-only records and 19 were automobile drivers licenses.

Although the check against the SSA is performed to test the validity of the SSN, the SSN does not represent a unique field which cannot be repeated in multiple records. As such, the COMP system does not currently check existing records for a matching SSN. Multiple unique records with the same license class and SSN, but a different drivers license number, could indicate that one person may be in possession of two unique drivers licenses or identification cards, or that more than one individual has a unique drivers license or identification card that is tied to the same Social Security number. Either of these situations increases the risk of fraudulent licenses being issued and impacts the integrity of the database.

HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

Observation

Contracted Temporary Employees

The Fiscal Year 2015 Higher Education Student Assistance Authority's (HESAA) workforce as presented in the 2016 State Budget indicates that the authority operates with a workforce of 134 employees. However, the HESAA has an additional 110 individuals on staff through the use of temporary employment agencies. This distorts the actual workforce needed to operate the authority and it would appear to be a questionable business practice to have such a high percentage of employees with little or no "ownership" for the mission of the HESAA and having access to customer data. In addition, we noted a temporary employee holding an Assistant Director position and fifteen temporary employees that have been assigned to the HESAA for over four years.

OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2015

REPORT	COMPLIANCE	CONTROLS	ECONOMY/ EFFICIENCY	NONE
	TYPES OF FINDINGS			
Casino Control Commission and Department of Law and Public Safety				
Division of Gaming Enforcement		X	X	
Department of Children and Families				
New Jersey Statewide Protective Investigation Reporting and Information Tool (NJ SPIRIT)		X		
Department of Community Affairs				
Section 8 Housing Program Financial Data Schedules				X
Department of Corrections				
Bayside State Prison	X	X	X	
Department of Environmental Protection				
Green Acres Program	X	X		
Department of Human Services				
Division of Aging Services				
Selected Community Based Senior Programs	X	X	X	
Division of Developmental Disabilities				
Woodbridge Developmental Center				
Payroll Transactions During Closure			X	
Division of Medical Assistance and Health Services				
Federally Qualified Health Centers	X	X	X	
Department of Law and Public Safety				
Division of State Police	X	X	X	
Department of Transportation				
Division of Right of Way and Access Management		X	X	
Maintenance and Operations	X	X	X	
Department of the Treasury				
Division of Taxation				
Homestead Benefit Program		X	X	
Division of the State Lottery		X	X	
Unclaimed Property Administration		X	X	
Higher Education Student Assistance Authority	X	X		
Judiciary				
Administrative Office of the Courts				
Court Information Technology Funds		X		
Motor Vehicle Commission				
Data Security		X		
New Jersey Educational Facilities Authority				X

OFFICE OF LEGISLATIVE SERVICES
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SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2015

REPORT	COMPLIANCE	CONTROLS	ECONOMY/ EFFICIENCY	NONE
	TYPES OF FINDINGS			
New Jersey Housing and Mortgage Finance Agency		X		
Pinelands Commission		X	Opinion Report	
Rutgers, The State University of New Jersey				
Allocation and Transfer of Resources Across Campuses	X			
State of New Jersey				
Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2014			Opinion Report	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		X		