New Jersey Office of Legislative Services
Office of the State Auditor

2012
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

Mr. Albert Porroni, Executive Director
Office of Legislative Services

I am pleased to present to you the *Annual Report of the New Jersey Office of Legislative Services, Office of the State Auditor* for calendar year 2012. 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 24 reports during 2012 which identified $352.3 million in potential cost savings and revenue enhancements. We also found $2.0 billion in calculation errors made to the bonds payable note as part of our review of the financial statements of the Transportation Trust Fund Authority. In addition, the state continues to save substantial dollars as a result of the resolution of issues previously reported by the Office of the State Auditor. If you or members of your staff would like additional information or a personal briefing, please contact me.

Our mission is to improve the accountability for public funds and to improve the operations of state government. We serve the public interest by providing members of the Legislature and other policymakers with unbiased, accurate information and objective recommendations on how to 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 5, 2013

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INTRODUCTION

BACKGROUND

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

The State Auditor is a constitutional officer appointed by the Legislature for a term of five years and until 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 Legislature, the Governor, and the Executive Director of the Office of Legislative Services.

The Public Laws of 2006, Chapter 82 authorized the State Auditor to conduct a performance review of any program of any accounting agency, any independent authority, or any public entity or grantee that receives state funds. The law also requires the State Auditor to conduct a follow-up review to determine 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 operation 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.

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 2012 we identified $352.3 million in new cost savings and revenue enhancements. We also found $2.0 billion in calculation errors made to the bonds payable note as part of our review of the financial statements of the Transportation Trust Fund Authority. 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, 2011 disclosed that 82 percent of the recommendations have been complied with or management has taken steps to achieve compliance.

The office performs the annual financial audit of the state's Comprehensive Annual Financial Report (CAFR). The CAFR engagement includes the audit of 145 funds and component units which had a full accrual accounting total asset value of $166 billion at June 30, 2012.

PROFESSIONAL STANDARDS

The Office of the State Auditor's audits are performed in accordance with G*overnment Auditing Standards* issued by the Comptroller General of the United States. These standards require that our operations be reviewed every three years. In 2011, the National State Auditors Association conducted a review of our system of quality control which resulted in an unqualified report.

OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF COST SAVINGS AND REVENUE ENHANCEMENTS
REPORTS ISSUED DURING CALENDAR YEAR 2012

REPORT	COST SAVINGS AND/OR REVENUE ENHANCEMENTS (In 000's)
Department of Corrections	
Central Office	$ 67
Department of Human Services	
Division of Developmental Disabilities	
Administrative Support Services	4,959
Division of Medical Assistance and Health Services	
Drug Rebate Programs	33,100
Medicaid Pharmacy Program	6,299
Division of Mental Health and Addiction Services	
Ann Klein Forensic Center	1,018
Trenton Psychiatric Hospital	30
Department of Labor and Workforce Development	
Unemployment Insurance Services	288,456
Department of Law and Public Safety	
Juvenile Justice Commission	620
Office of the Attorney General	450
Department of Military and Veterans' Affairs	
New Jersey Veterans Memorial Home at Vineland	2,171
Department of Transportation	
Capital Construction Contracts	1,800
Department of the Treasury	
Division of Administration	87
Division of Pensions and Benefits	
Selected Pension Services	1,688
Division of Risk Management	413
Motor Vehicle Commission	
Non-Payroll Expenditures	11,156
Total Cost Savings and Revenue Enhancements	$352,314

AUDIT REPORTS

TYPES OF AUDITS PERFORMED

Financial Audits

Financial audits are designed to provide reasonable assurance about whether the financial statements of an audited entity are fairly presented in conformity with generally accepted accounting principles. The primary annual financial audit conducted by the office is the opinion on the state's Comprehensive Annual Financial Report (CAFR) which is published by the Department of the Treasury. Two other financial audits were issued in calendar year 2012.

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 20 performance audits in calendar year 2012. These audits encompassed $45.3 billion and $532.9 million 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 2012 we reported on the New Jersey Public Colleges' and Universities' Data Security.

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.

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 one school district in 2012, a report is pending.

AUDIT REPORTS

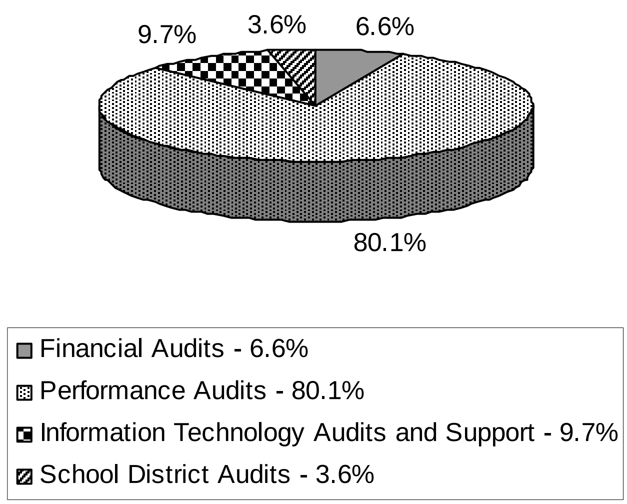
Legislative Requests

From time to time the Legislative Services Commission and Legislative Leadership requests 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 2012 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.

AUDIT STAFF

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

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

ORGANIZATION

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, 2012

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

ASSISTANT STATE AUDITOR
John Termyna, CPA
Jill Bodnar, Secretary

ASSISTANT STATE AUDITOR
Gregory Pica, CPA
Robyn Boyer, Secretary

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David J. Kaschak, CPA, CGFM
J. Robert Malone, MBA
William D. Robinson, CPA
Rose M. Todaro, CIA, CGAP, CFE, CGFM
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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
John Coyle, CPA
Tanya Cuccia, CISA, CPA
Jeffrey DeCicco, MBA, CPA
Jerry A. DiColo, MBA, CPA
Sean Duffy
Barbara Galager, CPA, CGFM
Robert Gatti, CPA
Kathleen Gorman
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Kenneth Kramli, CPA
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Linda Maher, CGFM
Kristen Menegus, CGAP
Donna Mooney, CPT
Nadia Negro
Stacey O'Brien, MBA, CPA
Charles Y. Paslawsky, MAccy
Donna M. Shemansky
Christopher D. Soleau, CGPA
Stephanie Titus, MBA
Patrick Whalin

AUDIT STAFF

Derek Bachmann
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Mary Batistick
William A. Bickel
Michael Blake
Scott Brevet, CPA
Vincent Caravello
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Denise Damico, MBA
Luz Dow, CPA
Lorien Flannery
Kaitlin Fleck
Eric Fonseca
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Michael Kiyaga, CPA
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Kirill Kornoukh
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Michelle Quinones
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Robert Rizzo, CPA
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Nicole Sansone
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Jesskim So
Jennifer Suchan
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Michael A. Tantum, MBA
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Jonathan Trauger, MBA, CPA
Shrushti Trivedi
Kurt Zadworney

ADMINISTRATIVE STAFF
Pamela J. Puca, Principal Audit Processor
Anthony Arena, 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
CISA – Certified Information Systems Auditor
CMFO – Certified Municipal Finance Officer
CPA – Certified Public Accountant
CPT – Certified Penetration Tester
MAccy – Master of Accountancy
MBA – Master of Business Administration
PSA – Public School Accountant

ACCOMPLISHMENTS AND RESULTS

SUMMARY

This section highlights five of the more significant audits issued during the past year that individually contained cost savings and revenue enhancements greater than $4 million and collectively totaled $344.0 million. Information on these reports is presented on pages 12 through 21. The office issued ten other reports with cost savings totaling $8.3 million. This section also contains the significant findings from five additional audits on pages 22 through 26. 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 2012 are identified on a schedule on pages 27 to 28 and are available for review on our website.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
ADMINISTRATIVE SUPPORT SERVICES

Contribution to Care and Maintenance

Pursuant to N.J.A.C. 10:46D, the Department of Human Services, Division of Developmental Disabilities (division) has established guidelines and criteria for determining the financial ability of persons served and that of their legally responsible relatives to contribute to the cost of care and maintenance when the individual receives residential services from the division. Persons over the age of 18 who have no financial dependents are required to contribute 75 percent of their unearned income less personal needs allowance and other allowable expenses. Contributions for clients under age 18 are based on family income above a minimum cost of living standard, less allowable expenses. There are approximately 10,600 clients living in community care residences and the seven state developmental centers that are required to make monthly care and maintenance contributions. The contributions offset only a portion of the considerable cost of their care. Fiscal year 2011 average collections from community care residents were $6,800 per client or six percent of the average annual cost of care. Clients in the developmental centers paid an average of $7,300 or two and a half percent of the cost of care.

Our review of the contribution for care and maintenance in other states disclosed that of the 20 states surveyed, eighteen require clients to pay for room and board or to contribute 100 percent of their unearned income. The required contributions for the remaining two states are equal to or higher than New Jersey’s. We estimated the change would provide additional revenues of $3.2 million annually.

Vendor Contract

The division contracts with a vendor to perform initial assessments of a new client’s financial ability to contribute to their cost of care and maintenance. The three-year contract with the vendor was renewed in January 2009 and extended for an additional six months through June 2012. The vendor was also required to establish and maintain an accounts receivable system for those clients where the division is not the designated representative payee for their monthly Supplemental Security Income, Social Security Administration, and other benefits. Approximately 3,000 clients fall into this designation. The vendor was no longer required to annually reassess clients where the division is the representative payee and the clients have no other source of income. That responsibility was assumed by the division, which performs reassessments for approximately 7,000 clients.

The vendor’s staff includes four assessors, who generate letters to clients requesting financial information. The vendor does not have access to any state databases for income verification and relies entirely on clients providing accurate and complete data. In addition, unlike the division, the vendor is not authorized to contact the Social Security Administration directly regarding client’s benefit payments.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
ADMINISTRATIVE SUPPORT SERVICES

The vendor is contractually paid $330 for each successful assessment completed and $264 for an unsuccessful assessment resulting from the vendor's inability to obtain financial information necessary to complete an assessment. The vendor was paid an average of $97,000 a month or $3.9 million for the period of January 2009 to April 2012.

The division did not extend the contract with the current vendor beyond June 2012. The division is assuming the responsibilities of initial assessments and maintenance of the accounts receivables. Based on our analysis, including the consideration for additional staffing, the division could realize annual savings of approximately $600,000, if they permanently assumed these responsibilities.

Psychology Consulting Services

In June 2008, the Division of Developmental Disabilities requested from the Department of Treasury a statutory exception permitting a waivered contract with a consultant having a background in clinical psychology and applied behavior analysis. The services provided through the waiver were to include behavior assessments and comprehensive intervention plans for several clients residing in developmental centers for the purpose of systematically reducing the one to one supervision for these clients and ultimately reducing overtime.

The division contracted with a Tennessee based consultant. Our review of vendor invoices showed that between November 2008 and October 2009 the consultant made eight visits to the developmental centers and evaluated 16 individuals at a total cost to the division of $57,750. The consultant charged the division for 525 hours of services including 229 hours for on-site observation of clients and interviews of direct care and clinical staff, and 296 hours for off-site assessments. Feedback from the developmental center's staff following the consultant's initial evaluations was negative. Staff members claimed that most of what had been reported by the consultant was already known and in most cases documented. Nevertheless, the division continued to engage the consultant to provide further services.

At the time of the consultant reviews, the developmental centers employed a behavior analyst, 54 clinical psychologists with advanced educational degrees, and 10 clinical psychiatrists at an annual cost of $5.9 million. Most of the professionals had worked extensively with these clients and were involved in preparing comprehensive annual behavior assessments and plans for the clients. The division should rely on these professional experts within the division prior to contracting for professional services.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
ADMINISTRATIVE SUPPORT SERVICES

Payment for Out of State Client

The division paid an $18,215 hospital bill in August 2009 for an individual who was not a client of the New Jersey Division of Developmental Disabilities. According to the division, the individual was placed in a New Jersey group home serving clients with developmental disabilities by another state. After the client became disruptive and left the group home, the provider refused to take the client back. The client subsequently required services at a local hospital. The cost of treatment for the individual should have been paid by the other state.

Observation

Office for Prevention of Developmental Disabilities

The Office for Prevention of Developmental Disabilities (OPDD) was established by the legislature in the Department of Human Services in 1987. The responsibilities of the office include developing long-range comprehensive plans for the prevention of developmental disabilities. Its mission is to reduce occurrence of severe chronic mental or physical disabilities that originate during pregnancy or early childhood.

Beginning in fiscal year 2010, OPDD started receiving appropriated funds through the Division of Developmental Disabilities. The office expended $549,000 in fiscal year 2010 and $534,000 in 2011 to 11 contract vendors. The services included educating adults and children about lead poisoning, pedestrian and bike safety, HIV and teen sexuality, and prevention of fetal alcohol syndrome.

There is a wide range of cooperative preventive, educational, and regulatory efforts in the area of lead poisoning, fetal alcohol syndrome, pedestrian and bike safety, and HIV and teen sexuality, performed by at least eight other state agencies, as well as various community agencies. It appears that OPDD contracting for these type services is a duplication of effort. The continued need for the office should be evaluated.

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
DRUG REBATE PROGRAMS

Drug Rebate Billings and Collections

Collection Issues

The Department of Human Services, Division of Medical Assistance and Health Services (division) invoices and receives quarterly rebates from over 400 drug labelers. Invoices are electronically entered and receipts are manually inputted into the Drug Rebate System, which is a subsystem of the New Jersey Comprehensive Financial System. The manufacturers remit their rebate checks to the state with a Reconciliation of State Invoice (ROSI) document. The ROSI lists all the drugs invoiced for the quarter, along with any adjustments the manufacturer has made to the drug unit amounts or the invoiced rebate rates. The manufacturer may include prior quarter adjustments in their payment. These adjustments can occur when the Centers for Medicare and Medicaid Services modifies the rebate rates that affect rebate amounts paid in prior quarters or when a dispute settlement occurs between the manufacturer and the state that affect a prior quarter. Discrepancies between invoiced amounts and receipt amounts are not pursued by the division. Invoices are typically filed away, unless the division is contacted by a manufacturer seeking to resolve disputed rebate information. Resolution of rebate disputes is the responsibility of one employee with the assistance of a pharmacist within the division. Other staff members will assist, if their schedule permits. Our review also found that the division does not track drug rebate collections and consequently does not know if a manufacturer remitted a quarterly payment. Based upon our review of the division’s collections for the Medicaid program from 2005 through 2009, we found 472 invoices totaling $14 million where the manufacturers did not remit a payment. By not placing adequate emphasis on monitoring rebate payments, the division is not maximizing rebate collections.

As of October 2011, the uncollected amount of drug rebates was $60.7 million for billings through calendar year 2009. Approximately $48.5 million represents uncollected amounts from 2005 through 2009. A portion of the uncollected balance, totaling $22.1 million, is attributed to the General Assistance Program (GA). The manufacturers have agreements with the state, but not with the GA program. The division is currently seeking a court ruling. The uncollected balance of $60.7 million could be reduced, depending upon the ruling. The non-GA related balance, totaling $38.6 million, may involve disputed amounts, including injectable drugs, and other unpaid quarterly billings.

It was noted rebate disputes can result from physician administered injectable drugs. Beginning in June 2008, injectable drugs administered by a physician were included in the rebate billings and collections. Discrepancies in the conversion of units of measure for these injectable drugs have caused the rebate invoices to be overstated. Manufacturers are aware of this problem and often dispute unit amounts and withhold rebates. We reviewed six calendar year 2009 invoices that had a total disputed amount of $841,000 and determined that 40 percent of the amounts disputed related to injectable drugs. In applying this rate to rebate quarters subsequent to June 2008, we estimate that $5.9 million of the uncollected balance relates to injectables, a portion of which may be collectible. The division is aware of this issue and has implemented a system edit which will minimize these types of drug rebate disputes in the future.

Based on the conditions stated above, the uncollected balance could possibly be reduced to $32.7 million. Because the division does not review uncollected balances and reviews disputed amounts only when contacted by a manufacturer, the division cannot determine how much of this amount is collectible. Based upon our review of ten current dispute resolutions, which totaled $2.4 million and included some disputes dating back to 1991, we noted that 47 percent of the disputed amount was collected. The division should take a more active role in addressing uncollected balances so that outstanding amounts can be resolved timely.

Billing Issues

According to federal regulations, interest begins accruing on disputed or unpaid amounts 38 calendar days from the date the state mails the invoice. Federal regulations allow interest to be calculated based on a 365-day year with simple interest applied to the average of the yield of the weekly 90-day Treasury bill auction rates. We found that the division does not calculate interest on any unpaid or disputed amounts, and therefore, is unaware of the amount of interest due on its unpaid balances. The division relies on the drug manufacturers to calculate and remit interest. The division has no system for verifying the accuracy of the interest payments. If the 47 percent dispute resolution rate holds true, we estimate that $1.1 million in interest is collectible on the balances outstanding as of the end of calendar year 2009.

Federal regulations also require that the state invoice manufacturers for drug rebates within 60 days after the end of a quarter. We found that the division was consistently late in mailing the invoices to the manufacturers. On average, the invoices were mailed 43 days late. We estimate that the state lost $4 million in interest between 2002 and 2009 because of late invoicing.

ACOMPLISHMENTS AND RESULTS
SIGNIFICANT COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
MEDICAID PHARMACY PROGRAM

Long-Term Care Pharmacy

An annual savings of approximately $4 million could be achieved if the Department of Human Services, Division of Medical Assistance and Health Services (division) subjected long-term care pharmacy claims to a proper edit review process prior to dispensing. The division has decided not to deny long-term claims with conflicts or other irregularities, but to pay and report possible errors. As noted in our audit report issued in April 2008, the division does not perform a payment review process on these claims.

Injectable Drugs

We estimate $1 million in overpayments have occurred for claims processed from July 1, 2009 to March 17, 2011 as a result of coding errors on Medicaid billings for injectable drugs. Providers' billing systems do not always utilize the proper coding, thus allowing injectable drugs to be billed in the incorrect unit of measure.

HIV/AIDS Registry

Medicaid recipients receiving HIV/AIDS medications should be matched to the statewide HIV/AIDS registry to avoid improper payments. We identified 82 Medicaid recipients with HIV/AIDS medication claims totaling $745,000 who were not listed on the registry as of January 2012.

Early Refills

The Medicaid program allows recipients to refill prescriptions after 85 percent of the medication is used. This practice has allowed some to accumulate an additional two month supply of the medication in a given year. We identified 439 instances during July 1, 2008 through June 30, 2011 where Medicaid recipients received a 420 day supply of HIV/AIDS medication for a one year period. The cost for the 14th month supply of the excess medication totaled $648,000.

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT
UNEMPLOYMENT INSURANCE SERVICES

Unreported Earnings

Claimants are working and not reporting earnings. We statistically sampled 150 unemployment claims with payments totaling $1.5 million in fiscal years 2010 and 2011 and tested whether claimants were reporting earnings. We found 6 percent of claims had underreported or failed to report earnings. Projecting our results to fiscal year 2010 and 2011 claims paid would amount to approximately $288 million in overpayments.

Samples from two target populations were also chosen to determine if they had significantly higher error rates. These samples were out-of-state residents and claimants reported on the National Directory of New Hires (NDNH) database. The sample error rates were 16 and 34 percent, respectively and were significantly higher than the overall sample. Projecting our results to the entire out-of-state residents' population for 2011 claims paid and to the entire NDNH population would amount in overpayments of approximately $13.6 million and $20 million, respectively.

Ineligible Payees

Claimants unavailable to work continued to receive unemployment benefits in fiscal year 2011. We found 50 claimants collected benefits totaling $237,000 after their date of death. Additionally, we found 198 claimants collected benefits totaling $354,000 after their date of incarceration. Ninety-six claimants totaling $135,000 were corrected by the department, while an additional 102 totaling $219,000 were detected by our audit.

MOTOR VEHICLE COMMISSION
NON-PAYROLL EXPENDITURES

Vehicle Inspections

Safety Inspections

Although safety inspections were eliminated as part of the required vehicle inspection, the cost of these safety inspections was not removed from the per vehicle inspection rate paid by the state. The Motor Vehicle Commission (MVC) contracted with Parsons Environment & Infrastructure Group (Parsons) to implement, manage, and operate the Enhanced Inspection/Maintenance hybrid program in New Jersey for fiscal years 2009 through 2013. During January 2010, the MVC proposed the elimination of safety tests for all passenger vehicles and the extension of the initial inspection for newer cars from four to five years. Public Law 2010, Chapter 29, effective July 1, 2010, reflected these proposed inspection changes. The MVC budgeted $11.5 million savings for fiscal year 2011 based on the expectation that the $3.24 safety component of the inspection rate, which was then $21.60, would be eliminated.

The state and Parsons negotiated changes to the contract in March 2011. The basis of the negotiations was not made available to the auditors by the Division of Purchase and Property in the Department of the Treasury. The amendments included a reduction in the inspection rate by $0.67 to $20.93 “in light of the change in law”, and permission for Parsons to close three facilities and reduce their operating hours. However, no change to the rate was made due to the elimination of the safety inspection. Subsequent to the changes in the law and the contract, we noted that Parsons had an average monthly reduction in their lane technician staffing by 121 positions, or 26 percent.

Between August 1, 2010 and September 30, 2012, the MVC missed the opportunity to save $12.6 million based upon the continued inclusion of the safety component in the inspection rate even though this function was no longer being performed by Parsons. The MVC could save approximately $556,000 a month by eliminating the safety component from the inspection rate. The MVC anticipates 1,373,700 passenger vehicle inspections to be conducted from October 2012 through the end of the contract period in May 2013 and thus could save $4.5 million during this period. It is incumbent upon the contractor to continue services for a maximum period of 180 days after the expiration of the contract if a new contractor has not been awarded. The potential savings for the extended period would be $3.3 million, bringing the total potential savings to $7.8 million.

Re-Inspections

The MVC paid the standard inspection rate to Parsons for passenger vehicles re-inspected more than once at its centralized inspection facilities (CIF) 114,070 times during the period September 1, 2010 to April 30, 2012. Based upon this data, the MVC spent $3.1 million on these re-inspections between September 2010 and September 2012. If no change is made to the re-inspection policy and re-inspections occur at the same historical rate, the commission will spend approximately $144,000 monthly or $2 million for vehicles re-inspected more than once from

October 2012 to November 2013, which represents the remainder of the contract period and the 180-day extension period.

The MVC Chief Administrator has the authority to determine if a vehicle should be re-inspected at a CIF or at a private facility. The MVC's current policy permits unlimited state funded re-inspections at the CIFs after an initial failed inspection. About 1.8 million inspections are performed annually at the CIFs, which includes initial inspections and all re-inspections. In the event that the MVC implements the preceding safety component finding recommendation, the amount that will be saved on the implementation of the re-inspection finding recommendation will be reduced by $22,000 per month.

Security Services

Local Agencies

The MVC provides security for 30 of its 39 agencies through agreements with local police departments, instead of exclusively using the existing state-wide armed security guard contract. Total payments to the local police departments were $3.3 million in fiscal year 2012. The MVC could save at least $1.2 million annually if they discontinued using all local law enforcement and utilized the existing state contract.

In 2002, the Fix DMV Commission issued a report recommending that a police presence be implemented at agency locations. The Motor Vehicle Security and Customer Service Act, enacted in 2003, only states that armed security guards are needed in order to prevent fraud. The MVC acquired police security services via a purchase order waiver and used the Fix DMV Commission recommendations as the basis for the waiver.

We recognize that some agencies have experienced illegal activity and that retention of a police presence in specific agencies may be justified.

Trenton Office Complex

The MVC has a memorandum of understanding with the Division of State Police to provide civilian security guard service for five posts at the MVC headquarters. However, these services are also available through the state-wide armed security guard contract. The agreement with the State Police states that the MVC shall pay for the actual salaries of the assigned security guard, uniform maintenance, radio equipment maintenance, and leave benefit time. The MVC must also pay overtime for posts which are scheduled for less than a full shift, as well as any overtime incurred to fill in for a guard utilizing leave benefit time. The MVC expended approximately $383,000 for these services in fiscal year 2011. Conversely, payments for the state-wide contract

MOTOR VEHICLE COMMISSION
NON-PAYROLL EXPENDITURES

are not subject to overtime, leave benefit payments, clothing allowance or equipment maintenance. The MVC could save approximately $63,000 annually if the state-wide vendor is used for this function.

Contract Payment Controls

The MVC utilizes the armed security guard vendor at 19 of its 39 agencies. We sampled five payments during fiscal year 2012 totaling $187,000. We found that the MVC overpaid the vendor nearly $38,000 because it used old contract rates that were higher. Had we not found the error, the MVC may have overpaid an additional $55,000. This error was brought to the attention of the MVC procurement personnel and they took immediate action to recoup the overpayments and to correct the remaining invoices.

DEPARTMENT OF EDUCATION
OFFICE OF CHARTER SCHOOLS

Charter School Application Process

We noted deficiencies in the application approval process that could result in poorly qualified applicants opening schools. Also, reviewer eligibility and qualification requirements have not been established. In addition, the overall approval process lacks transparency with respect to scoring criteria. Our review noted several instances where denied applications received a higher score than approved applications. We also noted other factors are considered, such as an interview with the school founders, but there is a lack of transparency as to the degree these factors have on the overall decision making process.

Charter School Monitoring

Annual Assessments

Required annual assessments that determine whether a charter school is meeting the goals of its charter, measure the effect enrollment declines have on the host school district, and review the student composition of the charter schools are not being completed. As a result, the Department of Education cannot be assured that reported performance outcomes are actually being achieved and enrollment selections are in compliance with the law. In addition, inefficiencies regarding school building use by the host school district may go undetected.

Charter Renewal

In accordance with N.J.A.C. 6A:11-2.3, the commissioner shall grant or deny the renewal of a charter upon a comprehensive review of the school. An evaluation of the school's renewal application, annual reports, and student performance on the Statewide Assessment Program is required as part of the review. Our review noted a lack of formal written guidelines over the department's review process. In addition, information contained in the school's annual reports is not verified and performance benchmarks for New Jersey Assessment of Skills and Knowledge (NJASK) scores have not been established. We compared charter school third grade results on the 2010 NJASK to third grade scores in the host school district. We found that in 13 of 40 schools the percentage of students that achieved proficient or advanced proficient underperformed their host district by 10 percentage points or more in one or both of the tested areas. This indicates a need for more effective monitoring to identify ineffective schools that may require assistance or that should be closed for performance deficiencies.

DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
SELECTED PENSION SERVICES

Observation

Post-Retirement Employment

Pension reform legislation effective May 2010 introduced a "minimum number of hours worked" requirement which was found to be beneficial in the enrollment process but may result in an unintended consequence in the re-enrollment process. By working less than the minimum number of hours, it allows retirees to exceed the monetary limitations for mandatory re-enrollment. The retiree can return to a similar or the same position on a part-time basis while still receiving their pension allowance. This may lead to earlier retirements, encourage employing entities to rehire a retiree at less than full-time, and have a detrimental financial impact on the pension systems.

DEPARTMENT OF THE TREASURY
STATE LEGAL SERVICES

Program Monitoring

The grant agreements between the Department of the Treasury (department) and Legal Services of New Jersey and its affiliates are structured in a manner that protects the confidentiality of their client's identifying information. Without this, the department cannot independently verify the client's financial information and eligibility. We recommended the department seek legislation that would enable it to restructure the grant agreement in a manner that requires clients to consent to the release of their identifying information for eligibility monitoring purposes only.

NEW JERSEY PUBLIC COLLEGES' AND UNIVERSITIES' DATA SECURITY

Wireless Security

Each of the five colleges we visited in 2011 provided a wireless signal for students or guests to use while on the institution's property. All of the colleges use an authentication system to control access to their wireless signals that requires the user to first connect to the signal using their wireless device, then authenticate before using any of the resources on the college network. At two of the colleges, we found that we could access some internal resources of the network prior to authentication. In addition, at one college we could scan external hosts as an unauthenticated user.

Industry standards require that remote wireless access be properly controlled to protect unauthorized access to sensitive system resources. From our discussions with the IT staff at the affected colleges we found that, with one exception, the colleges were not aware of these abilities of unauthenticated users. In each case, an improper configuration of a device in the wireless network was to blame. The colleges have begun correcting the issue, although one is using a consultant to upgrade their wireless network and must wait for the consultant to correct the issue. Because of the nature of public wireless networks, the signal must be broadcast over a wide area, which means that anyone can connect to it who is within range. The ability to connect to internal resources could pose a threat to the internal network, and the ability to connect to external hosts on the Internet could allow the colleges' signals to be used to launch an attack on a third-party device.

Asset Tracking and Disposal

Industry standards require that an organization have appropriate equipment, techniques, and procedures implemented to clear sensitive data from digital media before its disposal or release outside the organization. Those procedures should include the ability to accurately track a device throughout its life to ensure that proper disposal can be verified, as well as proper physical controls over media devices like hard drives to ensure that they are protected from loss prior to data sanitization.

We found issues in three of the five colleges we reviewed with regard to this process. One college had no asset tracking system in place to ensure that all devices were transferred to their third-party disposal company for data sanitization. Two colleges had not yet implemented a replacement tracking system for IT assets that are no longer tracked because dollar amount thresholds were raised. Although some of the machines currently in use still had tags on them from the previous system because of their purchase date, there is an increasing number of untagged machines in use not meeting the new dollar thresholds. These colleges were looking into addressing the issue. In addition, we found one college where unsanitized hard drives were left unsecured in a public area. Without proper controls to track these assets, there is an increased risk that a device containing personally identifiable or confidential information could be removed from the college without proper data sanitization.

TRANSPORTATION TRUST FUND AUTHORITY

Financial Note Presentation

For fiscal year 2010, the Transportation Systems Bonds Payable note overstated interest payable by $1.9 billion, and for fiscal year 2011, this note understated interest payable by $76 million. Department of Transportation management is responsible for the preparation of the financial statements and accompanying notes for the Transportation Trust Fund Authority. An external auditor is engaged to perform an annual financial statement audit. An integral part of the financial statements are the accompanying notes that provide additional information which are essential in obtaining a full understanding of the data. Staff at the Department of Transportation prepared the summation on the bonds payable, and have made errors for fiscal years 2010 and 2011. In addition, the testing and review process performed by the external auditor did not identify the errors in the notes to the financial statements in their reports issued October 29, 2010 and October 27, 2011 for fiscal years 2010 and 2011, respectively.

OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2012

	TYPES OF FINDINGS			
REPORT	**COMPLIANCE**	**CONTROLS**	**ECONOMY/ EFFICIENCY**	**NONE**
Casino Control Fund		Opinion Report		
Department of Corrections				
Central Office	X	X	X	
Department of Education				
Office of Charter Schools	X	X		
Department of Environmental Protection				
Environmental Regulation and Selected Programs of Compliance and Enforcement	X	X		
Department of Human Services				
Division of Developmental Disabilities				
Administrative Support Services	X	X	X	
Division of Medical Assistance and Health Services				
Drug Rebate Programs		X	X	
Medicaid Pharmacy Program	X		X	
Division of Mental Health and Addiction Services				
Ann Klein Forensic Center	X	X	X	
Trenton Psychiatric Hospital	X	X	X	
Department of Labor and Workforce Development				
Unemployment Insurance Services	X	X	X	
Department of Law and Public Safety				
Juvenile Justice Commission		X	X	
Office of the Attorney General			X	
Department of Military and Veterans' Affairs				
New Jersey Veterans Memorial Home at Vineland	X	X	X	
Department of Transportation				
Capital Construction Contracts		X	X	
Department of the Treasury				
Division of Administration	X		X	
Division of Pensions and Benefits				
Selected Pension Services		X	X	
Division of Property Management and Construction				
Building Leases	X	X		
Division of Risk Management		X	X	
State Legal Services		X		
Motor Vehicle Commission				
Non-Payroll Expenditures	X	X	X	

OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2012

REPORT	TYPES OF FINDINGS COMPLIANCE	CONTROLS	ECONOMY/ EFFICIENCY	NONE
New Jersey Public Colleges' and Universities' Data Security		X		
Pinelands Commission		Opinion Report		
State of New Jersey Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2011		Opinion Report		
Transportation Trust Fund Authority		X		