
New Jersey Office of Legislative Services Office of the State Auditor



2016 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 2016. 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 22 reports during 2016 which identified \$75.9 million in potential cost savings and revenue enhancements. In addition, the state continues to save substantial dollars as a result of the resolution of issues previously reported by the Office of the State Auditor. If you or members of your staff would like additional information or a personal briefing, please contact me.

Our mission is to improve the accountability 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 30, 2017

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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 2016 we identified \$75.9 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, 2015 disclosed that 79 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 2014 recommendations rose to 82 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 \$191 billion at June 30, 2016.

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 2016
 (Expressed in Thousands)

<u>REPORT</u>	<u>COST SAVINGS AND/OR REVENUE ENHANCEMENTS</u>
Department of Corrections	
Medical Contracts	\$ 1,355
Department of Education	
State Aid	58,600
Department of Environmental Protection	
Site Remediation Program	4,300
Department of Human Services	
Division of Developmental Disabilities	
New Lisbon Developmental Center	67
Department of Labor and Workforce Development	
Division of Workplace Standards	6,600
Department of Law and Public Safety	
Division of Consumer Affairs	2,200
Department of the Treasury	
Division of Pensions and Benefits	
Health Benefits Programs – Member Eligibility	927
Hi-Nella School District	252
New Jersey Office of Homeland Security and Preparedness	765
Woodbine School District	868
<i>Total Cost Savings and Revenue Enhancements</i>	<i>\$ 75,934</i>



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, CIA, CGAP, Team Leader
National State Auditors Association
External Peer Review Team

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

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.

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 15 performance audits in calendar year 2016. These audits encompassed \$19.8 billion and \$1.5 billion of expenditures and revenues, respectively.

Information Technology (IT) 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 2016, we reported on the Information Technology Project Management and the Statewide Information Technology, Contingency Planning.

The office has trained all audit staff on the basics of integrated auditing, where field auditors learn how to review IT controls while performing other audits. 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

TYPES OF AUDITS PERFORMED (continued)

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 2016.

Legislative Requests

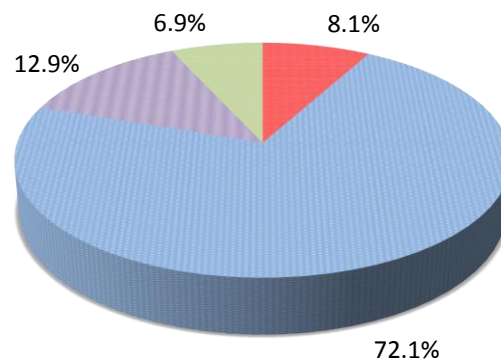
From time to time the Legislative Services Commission and Legislative leadership request the State Auditor to conduct special projects of the fiscal practices and procedures of the state and state-supported agencies, and to report findings to the Commission.

AUDIT REPORTS

DISTRIBUTION OF AUDIT HOURS

The distribution of audit hours used in performing audits during calendar year 2016 is depicted on the following chart.

DISTRIBUTION OF AUDIT HOURS



Financial Audits	- 8.1%
Performance Audits	- 72.1%
Information Technology (IT) Audits and Support	- 12.9%
School District Audits	- 6.9%

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. As of December 31, 2016, fifty-one staff members, 61 percent of the 84 filled professional positions, 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.

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 accuracy and 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, 2016**

STATE AUDITOR

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

ASSISTANT STATE AUDITOR

John J. Termyna, CPA
Jill Bodnar, Secretary

ASSISTANT STATE AUDITOR

David J. Kaschak, CPA, CGFM
Robyn G. Boyer, Secretary

AUDIT MANAGERS

Paul R. Baron, CPA
Franklin F. Bowker, MBA
Helen Dublas, CGAP

Robert F. Gatti, CPA
Anthony J. Glebocki, CPA, CFE, 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
Kenyon Booker, CGAP
Scott Brevet, CPA
Cynthia S. Burdalski
Timothy D. Bush, CPA
Donna M. Castelli
John J. Coyle, CPA
Tanya Cuccia, CISA, CGAP
Jeffrey DeCicco, MBA, CPA
Sean F. Duffy

Lorien Flannery, MAccy
Barbara E. Galager, CPA, CGFM
Kathleen Gorman
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Brian Klingele, MS, CIA, CGAP
Kenneth Kramli, CPA
Anna Lorenc
Linda Maher, CGFM
Kristen Menegus, CGAP
Smaragda Ng, MBA
Stacey O'Brien, MBA, CPA

John R. Pullen
Robert Rizzo, CPA
Donna M. Shemansky
Brian K. Sherfese
Jesskim So
Christopher D. Soleau, CGAP
Michael A. Tantum, MBA
Stephanie A. Titus, MBA
Irene Torunoglu, MAccy, CPA
Kurt T. Zadworney

AUDIT STAFF

Derek Bachmann
Edward A. Backer, CPA
Andrew D. Cipriano, CFE
Denise Damico, MBA
Luz K. Dow, CPA
Meghan Ellis
Nikki Farrell, CICA
Eric G. Fonseca
Tyler T. Frounfelker
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Rene Gervasoni
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Rich J. McHale

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Michael Salberta
Nicole Sansone, CFE
Christopher Santiago
Jennifer Suchan, CISA
Hiral Suvagiya, MBA, CPA
Justin Toldt, CPA
Shrushti Trivedi

ADMINISTRATIVE STAFF

Pamela J. Puca, Principal Audit Processor
Carly L. Diaz, Support Services Assistant

IT SUPPORT STAFF

John L. 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
MAccy – Master of Accountancy
MBA – Master of Business Administration
MS – Master of Science

ACCOMPLISHMENTS AND RESULTS

SUMMARY

This section highlights six of the more significant audits issued during the past year that individually contained cost savings and revenue enhancements greater than \$900,000 and collectively totaled \$74.0 million. Information on these reports is presented on pages 13 through 22. The office issued five other reports with cost savings and revenue enhancements totaling \$1.9 million. Other reports of interest that contain significant findings and observations from five additional audits are on pages 23 through 37. 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 2016 are identified on a schedule on pages 38 through 39 and are available for review on our website.

ACCOMPLISHMENTS AND RESULTS

SIGNIFICANT COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF CORRECTIONS

MEDICAL CONTRACTS

Overhead

The Comprehensive Healthcare Agreement (CHA) entered into with Rutgers, The State University of New Jersey (Rutgers) for inmate healthcare services stipulates that the New Jersey Department of Corrections (NJDOC) will reimburse Rutgers for actual costs plus overhead. Reimbursements for overhead are paid at the rate specified in the annual budget required by the CHA. Overhead reimbursements totaled \$6.1 million and \$5.9 million in fiscal years 2014 and 2015, respectively, and were calculated at a rate of 5.44 percent of contract costs excluding fringe benefits, malpractice insurance, and certain administrative salaries. However, the composition of overhead costs used to establish the rate is not supported. It should be noted that Rutgers utilizes NJDOC facilities for the majority of their operations, and hospital services are not provided by Rutgers, which should limit overhead costs.

The overhead rate is being applied to hospitalization costs for which the services are not provided by Rutgers. Hospitalization is provided by Saint Francis Medical Center (SFMC) and other providers. Overhead reimbursements to Rutgers that were calculated on inmate hospitalization costs totaled \$905,300 during the audit period.

- Hospitalization costs for which overhead was paid included provider inpatient, outpatient, and physician claims totaling \$6.65 million during the audit period. These claims from SFMC and other providers were submitted to Molina Medicaid Solutions (MMS) for processing. Rutgers was not involved in the claim process but was still reimbursed \$361,500 for overhead.
- Pursuant to agreements executed with Rutgers, SFMC and two other hospitals received supplemental compensation of \$2.68 million collectively in fiscal year 2014 for maintaining a secure unit for inmates. The compensation was calculated as a percentage of each hospital's inpatient claims processed by MMS for hospital admission dates prior to January 1, 2014. For example, SFMC was paid supplemental compensation at a rate of 106.42% of the inpatient services claim paid amount. Rutgers was reimbursed \$145,900 for overhead on these supplemental payments. As a result, overhead was effectively paid twice on the inpatient claims processed by MMS for SFMC and the two other hospitals. Supplemental payments are no longer paid to any of the hospitals for inpatient services starting on or after January 1, 2014.
- Pursuant to an agreement with Rutgers effective January 1, 2014, SFMC receives an annual payment of \$212,000 per bed to maintain a 23-bed secure unit for NJDOC inmates. The total annual payment of \$4,876,000 is processed by Rutgers and reimbursed by NJDOC monthly. Rutgers was reimbursed approximately \$397,900 for overhead on payments totaling \$7,314,000 that were processed from January 2014 to June 2015. Although Rutgers executed the agreement with SFMC and processed the payments, they do not incur any direct costs to maintain and operate the unit. Salary and fringe costs for Rutgers employees who collaborate with SFMC are already included in a separate overhead calculation.

ACCOMPLISHMENTS AND RESULTS
SIGNIFICANT COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF CORRECTIONS
MEDICAL CONTRACTS (continued)

Hospitalization costs are included in the CHA budget every year and overhead is calculated on the cost. These costs, however, are inherent to inmate healthcare and would be incurred by the NJDOC regardless of any provider service agreements. The NJDOC could have saved \$905,300 during the audit period if overhead was not calculated on hospitalization costs for which Rutgers does not incur an expense.

Fringe Benefits

The NJDOC incorrectly reimbursed Rutgers, The State University of New Jersey (Rutgers) \$245,000 and \$205,000 in fiscal years 2014 and 2015, respectively, for fringe benefits that were calculated on part-time employees' salaries. The Comprehensive Healthcare Agreement with Rutgers specifies that the fringe rate will be based on the applicable fiscal year circular letter issued by the State of New Jersey, Department of the Treasury, Office of Management and Budget. The circular letter specifically states that salaries of part-time employees are to be excluded from the calculation. FICA and Medicare taxes were properly reimbursed to Rutgers and are not included in the aforementioned amounts.

ACCOMPLISHMENTS AND RESULTS
SIGNIFICANT COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF EDUCATION
STATE AID

Preschool Education Aid to SDA and Expansion Districts

Per the School Funding Reform Act of 2008, Preschool Education Aid is provided only to districts that received Early Childhood Program Aid, Early Launch to Learning Initiative Aid, or Preschool Expansion Aid in fiscal year 2008. Annual Appropriations Act language defined the calculation of Preschool Education Aid in fiscal years 2015 and 2016 for eligible districts. Total aid appropriated was \$652.8 million and \$655.5 million in fiscal years 2015 and 2016, respectively. The aid provided to the 31 SDA school districts and four other school districts that received fiscal year 2008 Preschool Expansion Aid totaled \$608.5 million and \$611.1 million in each respective year and accounted for 93 percent of total appropriations.

As noted in our prior report, these districts annually project their preschool enrollment and receive a fixed amount of aid for each student based on placement. The base per pupil amounts for fiscal years 2015 and 2016 were \$12,788 for pupils enrolled in an in-district program, \$14,375 for pupils enrolled in a licensed child care provider program, and \$7,943 for pupils enrolled in a Head Start program.

The SDA school districts are held harmless to fiscal year 2009 thresholds. They will receive the greater of their calculated fiscal year 2015 or 2016 Preschool Education Aid, as explained above; the amount of aid they received in fiscal year 2009; or their fiscal year 2009 per pupil amount multiplied by their current year total projected enrollment. During our audit period, seven SDA districts were held harmless providing them with \$11.8 million and \$16.5 million in excess funding for fiscal years 2015 and 2016, respectively.

Our review also noted that every district overestimated their projected enrollment in fiscal year 2015, resulting in overpayments to 32 districts totaling \$25.7 million. In fiscal year 2016, 33 districts overestimated their projected enrollment, resulting in 30 districts being overpaid a total of \$32.9 million. However, using actual enrollment data, we determined that seven and ten of the SDA districts in fiscal years 2015 and 2016 would still have been held harmless to their fiscal year 2009 funding, resulting in additional overpayments of \$10.9 million and \$28.2 million, respectively.

The Appropriations Acts required that the districts' allocation of aid shall be set forth in their annual State Aid Notice. However, the Appropriations Act language can be modified, as it is for the School Choice Aid, so that funding is adjusted in the following year for actual pre-budget year enrollment.

**ACCOMPLISHMENTS AND RESULTS
SIGNIFICANT COST SAVINGS AND REVENUE ENHANCEMENTS**

**DEPARTMENT OF ENVIRONMENTAL PROTECTION
SITE REMEDIATION**

Outstanding Debt

As of April 29, 2015 the Department of Environmental Protection, Site Remediation Program's Office of Direct Billing and Cost Recovery had \$7.4 million of outstanding debt older than 90 days, only \$2.2 million of which was transferred to the Department of the Treasury's Division of Revenue and Enterprise Services (DORES) for collection efforts. The Department of the Treasury's Circular Letter 13-11-OMB, Statewide Non-Tax Debt Collection and Write-Off, states that all accounts receivable that have not been collected within 90 days should be transferred to the DORES for collection. Transferring old debt has historically been delayed in an effort for the Site Remediation Program (SRP) to collect the revenue themselves. Although SRP recently started to refer their debt to DORES, with a debt referral rate of only 29.5 percent, SRP is limiting its potential for collection on older cases of which \$4.3 million of outstanding debt is over one year old.

Additionally, SRP internal policy states liens shall be established on delinquent direct billing accounts. SRP management stated they have been prioritizing their lien process based upon high dollar amounts. We reviewed the 25 highest dollar accounts totaling \$2.7 million and noted 12 had no lien established totaling \$724,245. Establishing liens will aid in collection of future revenue.

ACCOMPLISHMENTS AND RESULTS

SIGNIFICANT COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT

DIVISION OF WORKPLACE STANDARDS

Wage and Hour Compliance

Wage and Hour Compliance (WHC) enforces a wide variety of labor laws and regulations. These include the minimum wage law, overtime wage rates, rules for the employment of minors, and the Prevailing Wage Act which applies to most publicly-funded construction projects.

WHC investigates wage complaints and assesses additional wages due to employees, along with fees and penalties. Wages due to current employees are paid through the employers' payroll, while wages due to former employees are paid through payroll or forwarded to WHC for distribution. WHC collects an average of \$1.7 million on behalf of employees each year and distributes an average of \$1.4 million (82 percent). These wages are accounted for in the Wage and Hour Trust Fund (Fund).

Abandoned Wages

Pursuant to the Uniform Unclaimed Property Act, wages which remain unclaimed by the owner for more than one year after becoming payable are presumed abandoned. Wages that remain unclaimed in the Fund for twelve months as of June 30th should be reported and transferred to the Department of the Treasury, Unclaimed Property Administration (UPA) by November 1st of that year.

The prime responsibility of the UPA is to return abandoned or lost tangible and intangible property to its rightful owners or heirs. To achieve this, the UPA utilizes a third-party website with national exposure to advertise abandoned properties.

When WHC is not able to locate employees who are owed wages using available contact information, the wages remain in the Fund. We found that WHC does not forward abandoned wages to the UPA. The wider reach of the UPA would allow more individuals to claim their abandoned wages.

During the ten years preceding June 30, 2015, the Fund's balance increased 75 percent to \$5.7 million, of which only \$555,000 should remain in the Fund. This amount represents the undisbursed portion of the prior year's receipts and outstanding checks. The remaining \$5.1 million should have been submitted to the UPA by November 1, 2015.

Debt Collection

WHC collects approximately 58 percent of the amounts assessed for unpaid wages, fees, and penalties. If assessments are not paid, a docketed judgment is filed with the Superior Court of New Jersey against the employer, and in some cases the owners, for any unpaid amounts. WHC

ACCOMPLISHMENTS AND RESULTS SIGNIFICANT COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT DIVISION OF WORKPLACE STANDARDS *(continued)*

is required to refer all docketed cases to Department of the Treasury, Division of Revenue and Enterprise Services (DORES) for collection pursuant to Department of the Treasury Circular Letter 13-11-OMB. DORES provides assistance to all state agencies in the recovery and resolution of non-tax debt.

From July 1, 2006 to December 31, 2015, WHC obtained 8,211 docketed judgments totaling \$93.9 million. Of this amount, \$16.1 million was referred to DORES for collection of which \$436,000 was recovered. As of December 31, 2015, \$55.7 million from docketed cases was still outstanding according to WHC records. Assuming the same collection rate, an additional \$1.5 million in unpaid wages, fees, and penalties could be collected if the remaining \$55.7 million is referred to DORES.

WHC management does not have a consolidated review process to ensure that all cases are resolved timely. WHC investigations result in assessments for approximately 6,800 new cases annually. While the current workload of WHC, as of January 1, 2016, consisted of only 1,463 cases, we found 503 of these cases were assessed prior to January 1, 2013. A cursory review of five of these cases disclosed one for which a judgment should have been filed but was not, two cases with unreconciled amounts that require additional work, and two cases that were last updated prior to July 25, 2012.

Periodic management reviews are necessary to ensure that unpaid wage claims are addressed, resolved timely, and referred for collection if appropriate.

Unpaid Payroll Taxes

Employers must withhold, report, and pay employer and employee shares of Social Security, Medicare, and income taxes. New Jersey employers are also required to withhold contributions for the Workforce Development Partnership Fund and the Unemployment, Disability, and Family Leave Insurances.

WHC assesses additional wages due to employees and instructs employers to deduct payroll taxes and remit net wages payable. Wages can be remitted directly to employees or to the Commissioner of Labor and Workforce Development for distribution.

While the WHC initial assessment letter instructs employers to submit all wages net of payroll tax deductions, subsequent correspondence regarding settlements, payment schedules, and judgments does not address these deductions. Although WHC lacks the authority to withhold payroll taxes, they do not reject gross receipts. As a result, WHC distributes gross wages to employees.

ACCOMPLISHMENTS AND RESULTS
SIGNIFICANT COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT
DIVISION OF WORKPLACE STANDARDS (continued)

Between July 1, 2012 and December 31, 2015, WHC received checks payable to the Commissioner of Labor and Workforce Development totaling \$5.5 million in wages for distribution to employees. Of these wages, we reviewed larger amounts totaling \$862,000 and statistically sampled the remaining \$4.6 million to determine whether payroll taxes were withheld. We found no payroll taxes were withheld. As a result, we estimate up to \$764,000 in Social Security and Medicare taxes went unpaid.

We also estimate up to \$5 million in wages may have avoided income tax at the federal and state levels. When the employer submits unpaid wages but neglects to withhold payroll taxes, it puts the responsibility on the employees to include the wages on their annual income tax returns. Although WHC designates the amounts as “gross wages”, the employees may erroneously assume the amounts are included in their Wage and Tax Statement (Form W-2) and unknowingly omit the wages on their income tax return.

ACCOMPLISHMENTS AND RESULTS
SIGNIFICANT COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF LAW AND PUBLIC SAFETY
DIVISION OF CONSUMER AFFAIRS

Dormant Escrow Accounts

Since 2001, the Department of Law and Public Safety, Division of Consumer Affairs (division) has been utilizing the state accounting system's payable accounts to recognize restitution deposits earmarked for consumers and for New Jersey Office of Weights and Measures inspection reimbursements to counties and municipalities. The division has a fiduciary responsibility to safeguard and account for the restitution funds and subsequently disburse these funds timely. As of April 2016, there were 46 payable accounts totaling \$9 million of which 20 accounts totaling \$428,000 have been dormant since 2002. Dormant funds have an increased risk of misappropriation.

We judgmentally selected the Bureau of Securities' (BOS) restitution payables representing 34 cases totaling \$2.9 million. In our review of the four highest BOS payables totaling \$2.6 million, we found three escrow accounts had accumulated \$2.2 million that should have been transferred to the state's General Fund. We brought this exception to management's attention, but the division only transferred \$131,000.

**ACCOMPLISHMENTS AND RESULTS
SIGNIFICANT COST SAVINGS AND REVENUE ENHANCEMENTS**

**DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
HEALTH BENEFITS PROGRAMS – MEMBER ELIGIBILITY**

Ineligible Members

The Department of the Treasury, Division of Pensions and Benefits (division) paid claims for some members after they were deemed ineligible for the program. We matched the State Health Information Processing System (SHIPS) calendar year 2015 enrollment records to calendar year 2015 claims and found 4,879 members who did not appear to be enrolled. We also found 3,939 members who had claims with a date of service subsequent to their termination date. We selected random and judgmental samples of both populations to validate the members' eligibility at the time the services were provided. The results of our tests are displayed below.

		Test of Claims for Members Not Enrolled				Test of Claims After Termination Date			
		Questionable Eligibility		# Deemed Ineligible	Amount of Questioned Claims	Questionable Eligibility		# Deemed Ineligible	Amount of Questioned Claims
# of Members	# Tested					# of Members	# Tested		
Health	2,765	120		7	\$ 80,354	1,948	120	73	\$ 141,702
Prescription	2,114	63		24	\$ 339,571	1,991	80	73	\$ 307,110
Total	4,879	183		31	\$ 419,925	3,939	200	146	\$ 448,813

The majority of members tested, who appeared as not enrolled, were actually eligible; errors in their social security numbers caused them to appear ineligible. All of the questioned claims for those not enrolled were for members who were previously enrolled but where coverage had terminated as early as 2010.

An additional test of all members whose coverage terminated in November or December of 2014 identified an additional 80 ineligible members with \$58,000 in 2015 claims.

Retroactive terminations caused most of the ineligible claims paid for terminated members. The division does not consistently verify the existence of claims prior to retroactively terminating a member and does not have a policy for the treatment of claims paid before coverage was rescinded.

Our test of claims after termination disclosed 77 percent of members with questioned claims were terminated retroactively and 67 percent of the questioned claims occurred during the period of time between the effective termination date and the date termination was entered in the SHIPS.

Prior to releasing payment, the private vendors are required to verify, via the interface with the SHIPS, that a member is covered on the date medical service was provided. In some circumstances, the division must terminate enrollment retroactively making it appear to the vendor that the member was still eligible at the time services were provided and that payment was made. Retroactive terminations occur when there is a delay in the communication of

ACCOMPLISHMENTS AND RESULTS
SIGNIFICANT COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
HEALTH BENEFITS PROGRAMS – MEMBER ELIGIBILITY (continued)

enrollment changes between the member and the division or when a member who is required to pay the full premium for their benefits is delinquent more than 45 days.

The Federal Consolidated Budget Reconciliation Act (COBRA) requires employers sponsoring group health plans to offer temporary extension of benefits under certain circumstances such as termination of employment. Under Chapter 375 of New Jersey Public Law 2005 (Chapter 375) certain over-age dependents may be eligible for coverage until age 31. The division complies with both laws and requires full payment of premiums from the member.

We judgmentally selected a sample of 50 COBRA and Chapter 375 members whose coverage began and was retroactively terminated to the same date in 2015. Our test results disclosed 27 members whose coverage was terminated retroactively due to nonpayment. On average, it took the division over 100 days from the effective termination date to the date it was entered in the SHIPS. Detailed claims information is available from the vendors upon request, but is not utilized by the division. Since the division does not consistently verify if claims were paid, any premiums due from these members were written-off and any medical attention received by the terminated member was free to the member.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

DEPARTMENT OF ENVIRONMENTAL PROTECTION TIRE RECYCLING

Background

It is estimated that approximately 300 million scrap tires are generated each year in the United States, or about one scrap tire per person per year. Scrap tires are sent to both in-state and out-of-state facilities for end-market processing. Examples of end-markets include ground rubber used for mulch, tire-derived fuel for cement kilns, and civil engineering projects such as rubber-modified asphalt. In New Jersey, there are currently 15 Class B recycling facilities that accept scrap tires. The Department of Environmental Protection is responsible for the regulation of these facilities. Oversight includes a comprehensive permit process and regular site inspections to determine compliance with state regulations and permit requirements. The permit requirements include storage specifications for recyclable materials, which are designed to prevent large accumulations of specific materials. The New Jersey Administrative Code provides approval exemptions for individuals or other recycling centers which receive less than 5,000 scrap tires per month and that do not process these tires. The exemption requires tires to not be stored on-site for more than six months, be stored in totally enclosed structures or in roll-off containers or trailers, and be transferred to an appropriate end-market.

In 2004, a law was enacted that established a local tire management program and imposed a fee of \$1.50 per tire on the purchase of new motor vehicle tires. It was estimated that the fee would generate \$12.3 million in annual revenue, of which \$2.3 million would be allocated for scrap tire pile cleanup. The remaining revenue collected was to be available for appropriation to the Department of Transportation (DOT) to support snow removal operations. The Department of Environmental Protection (department) received \$2.3 million in fiscal year 2005 to address the scrap tire pile sites. However, after fiscal year 2005, budget and appropriation language was modified and the department no longer receives these funds. Annual revenue derived from the tire fee during fiscal year 2005 through fiscal year 2015 averaged approximately \$9.2 million, the majority of which was appropriated to DOT for snow removal.

Department records disclosed that 18 major scrap tire piles existed within the state in 2004. Collectively, these sites contained at least 3.2 million tires with the largest site having over one million tires. The list of these sites was updated and additional sites were added subsequent to 2004. Our review of department records and discussions with personnel indicated that the majority of tires were remediated from these sites between 2004 and 2013. Aside from the \$2.3 million received in fiscal year 2005, some sporadic grant funds were provided from other sources, such as the Recycling Enhancement Act, while other cleanup efforts were paid for by the property owners.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

DEPARTMENT OF ENVIRONMENTAL PROTECTION TIRE RECYCLING (continued)

Scrap Tire Management

As a result of our audit, department enforcement officials visited 26 of the known major scrap tire pile sites that were previously identified, and in most cases remediated, to determine if new accumulations of tires had developed. The department also surveyed county health and mosquito control departments to determine if they were aware of any significant tire piles within their county. Based on the department's investigation, 18 of the 26 major scrap tire pile sites did not comply with state regulations and require additional remediation efforts. These efforts may include the removal of whole tires, tire chips and shreds left from initial remediation, and contaminated soil from a tire fire. In addition, 11 new tire sites were identified and also determined to be noncompliant. In total, the department estimates that these 29 sites contain approximately 350,000 to 565,000 scrap tires. One of these sites is an approved Class B recycling facility that accepts tires. According to the permit requirements report for this facility, unprocessed tires stored on-site shall not exceed 500 cubic yards (5,000 tires) and should be stored in the five trailers designated on the approved site plan. The department estimates that approximately 40,000 tires had accumulated in a large pile and were not stored in the designated trailers.

The following images document scrap tire piles in two New Jersey counties.



Burlington County

Photo Credit: NJDEP



Monmouth County

Photo Credit: NJDEP

We also obtained a list of junk yards within the state and utilized satellite map software to scan aerial images of these sites for potential scrap tire piles. We identified 13 sites that appeared to contain scrap tires, of which five of these sites were simultaneously identified during the investigation referred to above. Department investigators estimate that 85,000 to 156,000 tires had accumulated on these sites. The remaining eight sites were referred to the department's enforcement unit to determine appropriate action. The satellite images show that many of these scrap tire piles would not be visible from the road, and some appear to be hidden behind vehicles

**ACCOMPLISHMENTS AND RESULTS
OTHER REPORTS OF INTEREST**

**DEPARTMENT OF ENVIRONMENTAL PROTECTION
TIRE RECYCLING (continued)**

and other obstructions. Although there may be other undiscovered scrap tire piles, New Jersey does not seem to possess individual piles, with hundreds of thousands or millions of tires, which have plagued many other states.

Scrap tire piles are not only an eyesore, but also present an environmental and public health threat. In particular, scrap tire piles can be a significant fire safety hazard. Once ignited, scrap tire fires are notoriously difficult to extinguish. In addition to emitting dense, black, noxious smoke, tire fires can produce an oily residue that can enter and contaminate groundwater, leading to expensive remediation efforts. Mosquitoes are also a problem associated with scrap tire piles. Tire piles provide an ideal breeding ground for mosquitoes because rainwater can easily get into the tires creating the small stagnant pools necessary for mosquito breeding habitats. For many years the primary concern associated with mosquitoes was their ability to spread encephalitis and the West Nile virus. Recent attention has shifted focus on the role that mosquitoes play in transmitting the Zika virus.

**ACCOMPLISHMENTS AND RESULTS
OTHER REPORTS OF INTEREST**

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
OLMSTEAD PLACEMENTS FROM NORTH JERSEY AND
WOODBIDGE DEVELOPMENTAL CENTERS**

Background

In 1999, the US Supreme Court ruled in the case of *Olmstead v. L.C.* that the unnecessary segregation of clients with disabilities in institutions may constitute discrimination based on disability. The ruling states that services must be delivered in the least restrictive environment available within the parameters of a state's program. New Jersey contracts with private providers to serve many of the eligible adults with developmental disabilities.

In 2013, the State of New Jersey settled a lawsuit with Disability Rights New Jersey (DRNJ), a private, non-profit advocacy group for the disabled. The settlement agreement provides a timeline for the placement of eligible clients residing in state-operated developmental centers into a community-based setting appropriate to their needs. The agreement requires the state to provide community placements for at least 600 clients residing in developmental centers between fiscal year 2013 and fiscal year 2017 based on the following schedule:

Fiscal Year	Community Placements	Cumulative Total
2013	90	90
2014	115	205
2015	115	320
2016	115	435
2017	165	600

As a result of the *Olmstead* decision and the settlement agreement, the census population within the developmental centers has decreased. In 2012, the legislated Task Force on the Closure of State Developmental Centers made binding recommendations as to which centers should be closed. North Jersey Developmental Center was closed July 1, 2014 and Woodbridge Developmental Center was closed January 9, 2015.

Once a developmental center resident is identified as being community placement eligible and a provider is identified, a number of meetings are required to take place. These meetings include the client, their guardian if applicable, and members of the client's Interdisciplinary Team. Clients moved from a developmental center to the community are also monitored by the *Olmstead* transition team. Additionally, Department of Human Services, Division of Developmental Disabilities (division) policy requires case managers to visit all clients on a quarterly basis, at a minimum. As of October 2014, case managers are also required to communicate with the provider monthly.

**ACCOMPLISHMENTS AND RESULTS
OTHER REPORTS OF INTEREST**

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
OLMSTEAD PLACEMENTS FROM NORTH JERSEY AND
WOODBIDGE DEVELOPMENTAL CENTERS (continued)**

Monitoring of Olmstead Clients

Timeliness of Caseworker Visits

The division's case managers monitor clients who have been transitioned to a community residential setting. The division requires the case managers to conduct visits with clients within the first 30 days, 60 days, 90 days, and 180 days, one year, two years if needed.

We judgmentally selected 40 clients (20 from Woodbridge and 20 from North Jersey) of the 204 clients that were placed in the community from the Woodbridge and North Jersey Developmental Centers as of November 10, 2014. We reviewed all case records for the 40 clients to determine if the division performed the required monitoring of clients. We found that all required visits were conducted; however the visits in some clients' cases were not within the required time period.

Overdue Visits

Visit	Number of clients	Average days overdue
30 day	2	28
60 day	10	14
90 day	17	17

In addition, the division's policy requires that one of the first three visits occur at the client's day program. We found evaluations for 28 of the 40 clients reviewed either did not occur at the day program or the location was not documented by the case manager in the client record.

Recurring Issues

The case managers are the primary advocates for the clients. The face-to-face monitoring by the case manager ensures the client's needs and outcomes are being met and the transition continues to be successful. At the end of each visit, the case manager completes a report which contains critical information regarding the client's service plan including, but not limited to, reviews of medication administration records; dietary requirements; hygiene, medical and dental records; participation in day programs/community activities, and reviews of client finances.

We reviewed all the sampled clients' records including the required reports prepared by the case managers from the time the client was identified as being community placement eligible to the last case manager note found as of September 15, 2015.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

DEPARTMENT OF HUMAN SERVICES DIVISION OF DEVELOPMENTAL DISABILITIES OLMSTEAD PLACEMENTS FROM NORTH JERSEY AND WOODBIDGE DEVELOPMENTAL CENTERS (continued)

We did not evaluate if a client was achieving their living goals. Our review focused on prior to placement activities and the monitoring of the client and provider agency by division personnel after placement. We also focused our review to determine if there were recurring issues with client care or provider services.

We found that 15 of 40 clients tested did not have recurring deficiencies noted in their records. This is not to state that the 15 clients did not have issues with care or services, but that the issues were resolved by the provider in a timely manner and did not require further attention by the division.

The remaining 25 client records had recurring deficiencies documented that were not resolved in a timely manner. Our determination was based on the required documentation by the case managers. In these cases, the case managers had reported the same type of issue several times because the provider had not taken corrective action. The recurring deficiencies included the following: missing or broken durable medical equipment; lack of activities outside the home; providers not satisfying procedural and contractual documentation obligations to the division; missed doctor visits; group homes with provider staffing issues; medication administration and documentation issues; financial issues; client-specific dietary issues; and a lack of good client hygiene.

We have noted the following significant examples where recurring issues were not resolved in a timely manner.

- *Client 1*

Client 1 was placed into the community in February 2013. Client 1's case file had noted 24 times over the course of two years that the client did not have a properly functioning wheelchair resulting in the inability to attend outside day program sessions. The wheelchair was repaired; however, it broke again. There were two functioning wheelchairs made available to the client, however it was noted that both chairs were inappropriate for the client. Between March 2014 and May 2014, the client missed 35 consecutive days of day program outside the home due to the wheelchair. It was the responsibility of the provider to obtain the proper prescription so the client could receive a new wheelchair. The client received a custom wheelchair in August 2015.

**ACCOMPLISHMENTS AND RESULTS
OTHER REPORTS OF INTEREST**

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
OLMSTEAD PLACEMENTS FROM NORTH JERSEY AND
WOODBRIIDGE DEVELOPMENTAL CENTERS (continued)**

- *Client 2*

New Jersey Administrative Code 10:44A-5.5 requires food be readily accessible to clients receiving services unless limits have been approved by the Interdisciplinary Team. Client 2 was placed into the community on May 30, 2014. Client 2's Individual Habilitation Plan (IHP)/Comprehensive functional assessment states the client's diet should be a "soft low fat/low cholesterol diet cut into bite sized pieces with chopped bread (½ inch by ½ inch) – no dairy product (lactose intolerant/soy milk in place of milk)."

Additionally, their IHP states Client 2 is a "choking risk, and should be on 1:1/close supervision during meals". The Supports Needed Checklist notes that the client requires "altered consistency of food" under dietary supports.

The case manager noted concerns five times in one month for Client 2. On three occasions, a temporary provider staff gave Client 2 milk or milk products (pudding). On one occasion the client got sick. The group home staff reported "this probably happened because the temporary staff this morning may have given the client milk and the client is lactose intolerant." The case manager later wrote that the group home staff also reported that there are always two temporary staff working Thursdays through Saturdays and they do not always review the clients' menus when they come in and are unfamiliar with all the clients' behaviors.

On two occasions, temporary provider staff gave Client 2 hard pretzels and uncut foods even though the client is on a soft, bite-sized diet. In addition, the case manager spoke with the client's day program staff, who reported that the group home was not sending appropriate food, and the food was not always chopped small enough. The same case manager reported in the case notes on February 19, 2015, that during a surprise face-to-face visit with Client 2, despite being on a soft ground diet, the client was eating hard pretzels.

The provider agency received training on Client 2's diet on March 12, 2015.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

DEPARTMENT OF HUMAN SERVICES DIVISION OF DEVELOPMENTAL DISABILITIES OLMSTEAD PLACEMENTS FROM NORTH JERSEY AND WOODBRIIDGE DEVELOPMENTAL CENTERS (continued)

- *Client 3*

Client 3 was placed into the community in May 2014. The client's records disclosed that the case manager noted seven times between June 2014 and January 2015 that the Behavior Support Plan (BSP) was pending review for approval and not yet implemented. A BSP is a clinical intervention designed to modify identified behaviors. BSPs are reviewed by and approved by the client's Interdisciplinary Team. In September 2014, the case manager also noted how they stressed the importance of a BSP to the provider. Medical issues were also noted eleven times for the nine-month period between June 2014 and February 2015 including the need for medical appointments, missed appointments, and the client refusing services. It was noted by the case manager in two instances the missing of appointments was due to behaviors.

- *Client 4*

An Individual Habilitation Plan (IHP) provides clients and those people close to the client with a service plan specific to the client. An Adaptive Behavior Scale/Health Safety Risk Assessment (ABS/HSRS) is an assessment tool used to identify an individual's needs in several key areas including Health/Medical, Adaptive Equipment, Behavior, Supervision, etc. Client 4's records disclosed the case manager noted five times between January 2013 and May 2013 the client's day program was not a good fit. The 180-day Olmstead review dated May 2013 noted that a request submitted for another day program could not be completed until the IHP and ABS/HSRS were completed. Between May 2013 and January 2014 there was no mention of the client's day program. The case manager was previously told by the staff at the day program that the client was doing fine. During an IHP meeting in January 2014 the case manager put in a referral requesting a new day program because once again it was determined the existing day program was not a good fit. The client was not placed into a new day program until September 30, 2014.

Missing Documentation

The purpose of the division's Olmstead procedure for a Supports Needed Checklist (SNC) is to identify supports, services, and equipment needed to ensure a client has a safe and successful transition from a developmental center to a community residence. The SNC is included in the client file and reviewed weekly prior to placement by the case manager to ensure that progress is being made towards the client's safe and successful transition. The document is a summary of the client's overall service plan, and is used in determining whether or not a community residence adequately meets the client's needs.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

DEPARTMENT OF HUMAN SERVICES DIVISION OF DEVELOPMENTAL DISABILITIES OLMSTEAD PLACEMENTS FROM NORTH JERSEY AND WOODBIDGE DEVELOPMENTAL CENTERS (continued)

We reviewed 40 clients' case records and found that 11 did not have the SNC. The division asserts that the original SNC documents had likely been created and maintained on the Woodbridge or North Jersey Developmental Centers' hard drives. When the facilities were closed, the hard drives were destroyed as required by state policy. The division was able to retrieve 3 of the 11 missing documents on their backup system. Although not easily attainable, the information on the SNC can be found elsewhere in the client's file.

Timely Placement Meetings

Based on the division's Olmstead procedures, the purpose of the pre-placement meeting (PPM), is to review the service plan, establish a move date, finalize the transition plan, ensure provider agency staff are scheduled for any necessary training, verify managed care paperwork has been completed and physicians have been identified, provide the agency with the prescriptions and letter of justification for relevant durable medical equipment for the client, verify the type of day program, and wrap-up any miscellaneous details. The pre-placement meeting is to be held at the developmental center approximately 60 days prior to the move date. If the meeting does not occur within 60 days, the case manager must review the pre-placement meeting outlined to ensure it remains appropriate.

We found that pre-placement meetings occurred greater than 60 days prior to placement for 17 of the 40 clients that we sampled. For 15 of those 17 clients, the pre-placement meeting took place 100 days or more prior to the placement. While it is understandable that dates change, we found no evidence in the case records that suggested that the clients' needs were re-evaluated to ensure that they remained the same. Failure to follow policy and procedures by case managers could lead to health and safety concerns not being addressed prior to the move.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

NEW JERSEY OFFICE OF HOMELAND SECURITY AND PREPAREDNESS (OHSP)

Observation

Critical Infrastructure Protection Bureau

The mission of the Critical Infrastructure Protection Bureau is to ensure the protection, preparedness, and resiliency of New Jersey Critical Infrastructure Key Resources (CIKR). One of its six core functions is to perform Site Assessment Visits (SAVs) on the physical security of qualified CIKR in New Jersey. Identified security gaps and recommendations are provided to the owners or operators of the facilities and the reports are uploaded into OHSP's restricted access State Assets Database (SADB). We did not have access to SADB and were not able to view the reports to ascertain the significance of any security gaps that were identified in the SAVs. Currently, there is no written policy to prioritize how many sites should be selected for the assessments. As of April 30, 2015, the bureau had identified 773 state level critical assets of which approximately 90 percent are privately owned. From 2006 to October 2015, the combined total of all SAVs performed by OHSP's staff and local government agencies totaled 101. In addition, we were informed by OHSP that the office does not have the enforcing authority to require improvements or corrections on identified security gaps. However, New Jersey Statutes Annotated C.App.A:9-73 allows the Attorney General to institute an action or proceeding in the Superior Court for equitable and other relief, which the court shall order if necessary to preserve, protect, or sustain the public safety or well-being.

P.L. 2001, Chapter 246 states that the Infrastructure Advisory Committee shall act as a liaison to private industry throughout the state and establish ongoing communication between private industry and any other private entity, and state and local officials regarding domestic preparedness and the respective roles and responsibilities of the public and private sectors. Our review of the minutes for the quarterly meetings of the Infrastructure Advisory Committee in calendar year 2015 made no mention of any security gap discussions.

The national and state's CIKR are significant assets with great impact to the security of the state, the state's economic security, public health, and public safety. Performing sufficient SAVs, sharing identified risks to key members of specific industries, and enforcing the resolution on security gaps would ensure better protection of critical infrastructures in the state. Facility owners and operators of both the private and public sectors have responsibilities to protect not just their critical assets, but also the affected citizens of New Jersey.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

STATEWIDE INFORMATION TECHNOLOGY CONTINGENCY PLANNING

Background

The Office of Information Technology (OIT) has the statutory responsibility for “providing and maintaining the information technology infrastructure of the Executive Branch of State Government, including all ancillary departments and agencies of the Executive Branch of State Government.” Contingency planning is a component of maintaining the information technology infrastructure.

The National Institute of Standards and Technology (NIST) refers to contingency planning as “interim measures to recover information system services after a disruption.” Almost all significant functions the state agencies perform are dependent on an information system for successful completion. If a disruption to an information system occurs, a contingency plan needs to be in place and ready to execute for the agency to resume its functions. Other common terms used for contingency plans include continuity of operations plans and disaster recovery plans.

Historically, the OIT has taken certain steps to meet its statutory responsibility in relation to contingency planning. They developed the OIT Availability and Recovery Site (OARS), located separately from existing OIT production facilities, for the purpose of providing the capability to recover critical state systems in the event of a disruption and have established the ability to recover critical mainframe applications. However, the ability to recover critical distributed computer applications at OARS has not been fully developed. Additionally, the OIT issued Policy 14-31 in October 2014 which outlined the agencies’ responsibilities for recovery readiness; however, this policy does not include responsibilities for the OIT.

Agencies’ Contingency Plans

Twenty-four agencies were reviewed to determine if their contingency plans are current and have been tested. From a survey and interviews with agency staff, it was determined that all 24 agencies do have contingency plans, but five agencies’ contingency plans are not current. It was further noted that of the 24 agencies surveyed, eighteen have never tested their contingency plans.

The National Institute of Standards and Technology (NIST) Special Publication 800-34, Rev. 1, – *Contingency Planning Guide for Federal Information Systems* – 2.2.2 Continuity of Operations Plan, lists standard elements for a plan which include test, training, and exercise.

In addition, the OIT Policy 14-31 was issued in October 2014 and requires agencies to develop, maintain, and test a contingency plan for the critical systems identified in the Business Impact Analysis. The contingency plan is to describe the process for assuring the agency’s ability to continue the critical business services and operations of each agency system, including systems used by branch or remote offices, and requires agencies to perform annual training and testing of the contingency plan to ensure all critical participants know their roles and responsibilities and to

**ACCOMPLISHMENTS AND RESULTS
OTHER REPORTS OF INTEREST**

**STATEWIDE INFORMATION TECHNOLOGY
CONTINGENCY PLANNING (continued)**

facilitate any needed corrections to the plan. Training and testing can be performed simultaneously.

The five agencies that have not updated their contingency plans risk having their plan fail and not being able to recover their mission-critical applications in a timely fashion. The 18 agencies who have never tested their contingency plans do not know if their recovery solutions will work during a real disruption. This could impact the recovery of their mission-critical applications and the public who may rely on these mission-critical applications.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

WOODBINE SCHOOL DISTRICT

Business Office Practices

The Woodbine School District's (district) administrators did not properly monitor the business office throughout the years audited. Budget modifications were not made when it became apparent that specific budget line items were insufficient to meet actual costs. In addition, other business office practices negatively impacted the district budget including charges to improper (incorrect) accounts and failure to properly account for the collection of receivables.

Insufficient Budget – Health Benefits

During our audit period, the district changed health and dental insurance providers twice in an attempt to reduce costs. The first change occurred in 2011 when the district joined a health insurance fund subgroup at the recommendation of the district's insurance broker, who we identified as the coordinator of that fund. This apparent conflict was not documented in district records. Under this subgroup there was a slight initial increase in premiums, however, within nine months, premiums increased 19 percent plus two subsequent supplemental assessments totaling \$108,000, which were not provided for in the budget. The district claimed no knowledge that supplemental assessments were possible; however, in the resolution to join the health insurance fund, potential supplemental assessments were agreed upon. Additionally, we noted the district's designee did not attend board meetings where the supplemental assessments were discussed and approved. The district terminated coverage with the health insurance fund effective January 1, 2013 and enrolled in the State Health Benefits Program (SHBP).

Inadequate Budgeting – Out-of-District Tuition

The district pays tuition for special education and high school students placed out-of-district. Payments totaled approximately \$1.35 million, \$1.54 million, and \$1.44 million in fiscal years 2012, 2013, and 2014, respectively. The district did not maintain comprehensive lists of out-of-district students. We compiled a list for the 2013-2014 school year and identified 87 students at seven schools.

We judgmentally selected one special services district and compared the original budget and corresponding students to the actual enrollment and expenses for fiscal years 2012, 2013, and 2014. We found original budgets were insufficient and transfers were not initiated during the year to cover the tuitions for the enrolled students. In fiscal year 2012, the district paid for seven students, two of whom were enrolled the entire year, with no corresponding funds in the budget. The cost for these students totaled \$208,000. In fiscal year 2013, the district paid for five students, three of whom were enrolled the entire year, with no corresponding funds in the budget. The cost for these students totaled \$146,000.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

WOODBINE SCHOOL DISTRICT (continued)

In fiscal year 2014, the district was assessed a prior year tuition adjustment for high school students and chose to only budget for half the assessed amount. The total tuition adjustment was approximately \$153,000, of which \$76,600 was not included in the budget or paid throughout the year. A year-end adjustment was required resulting in an expenditure deficit of the line item.

Proper board approval, contracts, and attendance records should be obtained for students placed out-of-district. District records provided were unorganized and incomplete. The district was unable to provide the following.

- Board approvals for fiscal years 2012, 2013, and 2014 for students sent to the special services district utilized the most, in addition to three other schools.
- Contracts with two of the six schools for the 2011-2012 school year and none of the six schools for the 2012-2013 school year.
- Student attendance records for four of the six schools in the 2011-2012 and 2012-2013 school years and four of the seven schools during the 2013-2014 school years. (Attendance records should be submitted to the district to provide assurance all students attend.)

Accounting Errors – Health Benefits

Fiscal Year 2010

The district received Preschool Education Aid to fund a preschool program. The applicable revenues and expenses are recorded in the Special Revenue Fund. The district improperly charged a portion of the preschool employee benefits to the General Fund in the amount of \$10,800. With proper accounting of this expense, the district could have avoided the fiscal year 2010 General Fund deficit.

Fiscal Year 2011

The General Fund employee benefit expense was overstated by a net \$68,400. With proper accounting, the district would not have ended the year in a deficit. Accounting errors included the following:

- Upon provider change in April 2011, the district recorded two April premiums, one each for the previous and current provider. This error totaled \$43,800 and was corrected in the subsequent year with an adjustment to accounts payable and revenue, which in itself is an incorrect accounting entry.
- The district had a practice of expensing one month behind for health insurance premiums. When the district transitioned to the new provider, they had to expense all open invoices, resulting in 13 months of premiums expensed in fiscal year 2011, overstating the benefit expense by \$35,700.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

WOODBINE SCHOOL DISTRICT (continued)

- The General Fund employee benefits expense was understated by \$14,700 due to an improper allocation to the Special Revenue Fund.

Fiscal Year 2013

The district's General Fund employee benefit account had an expenditure deficit of \$209,000 in fiscal year 2013. The district terminated coverage under the health insurance fund and began SHBP coverage on January 1, 2013. As of June 30, 2013, the district had an unrecorded liability to the health insurance fund totaling approximately \$122,400 for one supplemental assessment and one missed monthly premium plus interest on a two-year repayment plan. Additionally, the district exercised its two-month premium delay option under the SHBP coverage. Under the accrual basis of accounting, the district should have recognized a \$89,300 expense and liability and had not. An audit adjustment totaling \$211,700 for these two accounting errors was required. The employee benefits original budget was insufficient and the district had transferred a total of \$88,000 out of the account at year-end, resulting in the expenditure deficit after the required audit adjustment. We also noted that if the health benefit expenses were properly allocated between the general and special revenue funds, the general fund expense would have included an additional \$16,000, increasing the deficit.

Fiscal Years 2012, 2014, and 2015

The district understated General Fund expenses by \$7,000, \$50,000, and \$17,000 in fiscal years 2012, 2014 and 2015, respectively, by charging General Fund employee benefits to the preschool program in the Special Revenue Fund.

Cancellation of Prior Year Receivables and Grants

At the end of fiscal year 2012, the district recorded a \$69,000 receivable in the Debt Service Fund for anticipated Solar Renewable Energy Certificate (SREC) sales in July and August of 2013. Upon sale of the SRECs, the district recorded revenue in the General Fund instead of clearing the receivable. The adjustment required to correct the accounting error added \$69,000 to the deficit in fiscal year 2013.

Additionally, an audit adjustment of \$55,000 for the cancellation of grant receivables contributed to the fiscal year 2013 deficit. The applicable grants dated back to 2007 and the district had no records to substantiate the accuracy of the open balances. The audit adjustment was agreed upon to provide the district with an accurate financial position.

**OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2016**

TYPES OF FINDINGS

<u>REPORT</u>	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY/ EFFICIENCY</u>	<u>NONE</u>
Department of Community Affairs Section 8 Housing Program Financial Data Schedules				X
Department of Corrections Medical Contracts	X	X		
Department of Education Administration State Aid	X	X	X	
Department of Environmental Protection Site Remediation Program Tire Recycling	X X	X X		
Department of Human Services Division of Developmental Disabilities New Lisbon Developmental Center Olmstead Placements from North Jersey and Woodbridge Developmental Centers	X X	X X	X	
Department of Labor and Workforce Development Division of Workplace Standards	X	X	X	
Department of Law and Public Safety Division of Consumer Affairs		X	X	
Department of the Treasury Contributory Group Life Insurance Program Division of Pensions and Benefits Health Benefits Programs – Member Eligibility Division of Revenue and Enterprise Services Operations	X	X X X	X X	
Garden State Preservation Trust				X
Hi-Nella School District	X	X		
Information Technology Project Management	X	X	X	
New Jersey Office of Homeland Security and Preparedness	X			

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<u>REPORT</u>	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY/ EFFICIENCY</u>	<u>NONE</u>
State of New Jersey				
Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2015				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	X		
Statewide Information Technology				
Contingency Planning	X	X		
Transportation Trust Fund Authority				
				X
Woodbine School District				
	X	X	X	