



New Jersey Legislature
★ *Office of* LEGISLATIVE SERVICES ★
OFFICE OF THE STATE AUDITOR

State of New Jersey
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

For Fiscal Year Ended June 30, 2022

David J. Kaschak
State Auditor



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NEW JERSEY STATE LEGISLATURE
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OFFICE OF THE STATE AUDITOR

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David J. Kaschak
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Brian M. Klingele
Assistant State Auditor

Thomas Troutman
Assistant State Auditor

The Honorable Philip D. Murphy
Governor of New Jersey

The Honorable Nicholas P. Scutari
President of the Senate

The Honorable Craig J. Coughlin
Speaker of the General Assembly

Ms. Maureen McMahon
Executive Director
Office of Legislative Services

We have audited the financial statements of the State of New Jersey as of and for the year ended June 30, 2022 and have issued our report thereon dated April 10, 2023. In connection with that audit, we tested internal controls and compliance with laws and regulations. The results of our tests are contained herein in our 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*.

The audit was performed and this report is submitted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

A handwritten signature in black ink that reads "David J. Kaschak".

David J. Kaschak
State Auditor
April 10, 2023

**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***

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OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Independent Auditor's Report

The Honorable Philip D. Murphy
Governor of New Jersey

The Honorable Nicholas P. Scutari
President of the Senate

The Honorable Craig J. Coughlin
Speaker of the General Assembly

Ms. Maureen McMahon
Executive Director
Office of Legislative Services

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of New Jersey, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the State of New Jersey's basic financial statements, and have issued our report thereon dated April 10, 2023. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component units, the pensions and other employee benefits trust funds, and the Port Authority of New York and New Jersey, as described in our report on the State of New Jersey's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the

pensions and other employee benefits trust funds and one discretely presented component unit, the Higher Education Student Assistance Authority, audited by other auditors, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of New Jersey's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of New Jersey's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of New Jersey's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2022-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in

accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, reading "David J. Kaschak". The signature is written in a cursive style with a large, stylized 'D' and 'K'.

David J. Kaschak
State Auditor
April 10, 2023

State of New Jersey
Schedule of Findings and Responses

Finding 2022-001 - Unemployment Compensation Fund (UI Fund)

Financial Statement Reporting

The Department of Labor and Workforce Development (DOLWD) is responsible for preparing complete and accurate financial statements for presentation to the Department of the Treasury's Office of Management and Budget – Financial Reporting (OMBFR). The OMBFR is responsible for including those financial statements in the state's Annual Comprehensive Financial Report (ACFR).

We presented an adjustment totaling a net of \$223,464,474 decreasing the UI Fund's Accounts Receivable, net of Allowances for Uncollectibles – Departmental Accounts, and Operating Revenues – Assessments because of calculation errors and an omission regarding bad debt. This adjustment decreased the total Net Position by \$223,464,474.

Recommendation

We recommend the DOLWD conduct a more independent and detailed review and approval process of the UI Fund's financial statements, including its calculations of estimates, prior to submission to the OMBFR.



State of New Jersey

PHILIP D. MURPHY
Governor

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P. O. Box 002
TRENTON, NEW JERSEY 08625-0002

SHEILA Y. OLIVER
Lt. Governor

ELIZABETH MAHER MUOIO
State Treasurer

March 28, 2023

Mr. David J. Kaschak
State Auditor
Office of Legislative Services
Office of the State Auditor
P.O. Box 067
Trenton, NJ 08625-0067

Dear Mr. Kaschak:

The Office of Management and Budget (OMB) appreciates the efforts of your staff in their audit of the Annual Comprehensive Financial Report. We are working to resolve the finding noted in the *State of New Jersey 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*, and we would like to thank you for giving us an opportunity to comment on the finding. The response to the audit team's recommendation is as follows:

Finding 2022-001 - Unemployment Compensation Fund (UI Fund)

The Department of Labor and Workforce Development (DOLWD) is responsible for preparing complete and accurate financial statements for presentation to the Department of the Treasury's Office of Management and Budget – Financial Reporting (OMBFR). The OMBFR is responsible for including those financial statements in the state's Annual Comprehensive Financial Report (ACFR).

We presented an adjustment totaling a net of \$223,464,474 decreasing the UI Fund's Accounts Receivable, net of Allowances for Uncollectibles – Departmental Accounts, and Operating Revenues – Assessments because of calculation errors and an omission regarding bad debt. This adjustment decreased the total Net Position by \$223,464,474.

Recommendation

We recommend the DOLWD conduct a more independent and detailed review and approval process of the UI Fund's financial statements, including its calculations of estimates, prior to submission to the OMBFR.

Response

The OMBFR has consulted with the DOLWD - Financial Reporting (DOLWDFR) and have collectively agreed that we appreciate the suggestions of the State Auditor. DOLWDFR will expand upon the existing processes of the Department of Labor & Workforce Development's (DOLWD's) Office of Internal Audit, by engaging the services of an external, third party firm in conducting an annual, independent, and detailed review of the Unemployment Compensation Fund's financial statements prior to the submission to the OMBFR, beginning in Fiscal Year 2023.

Sincerely,



Elizabeth Maher Muoio
State Treasurer

c: Robert Asaro-Angelo, Commissioner of Labor and Workforce Development