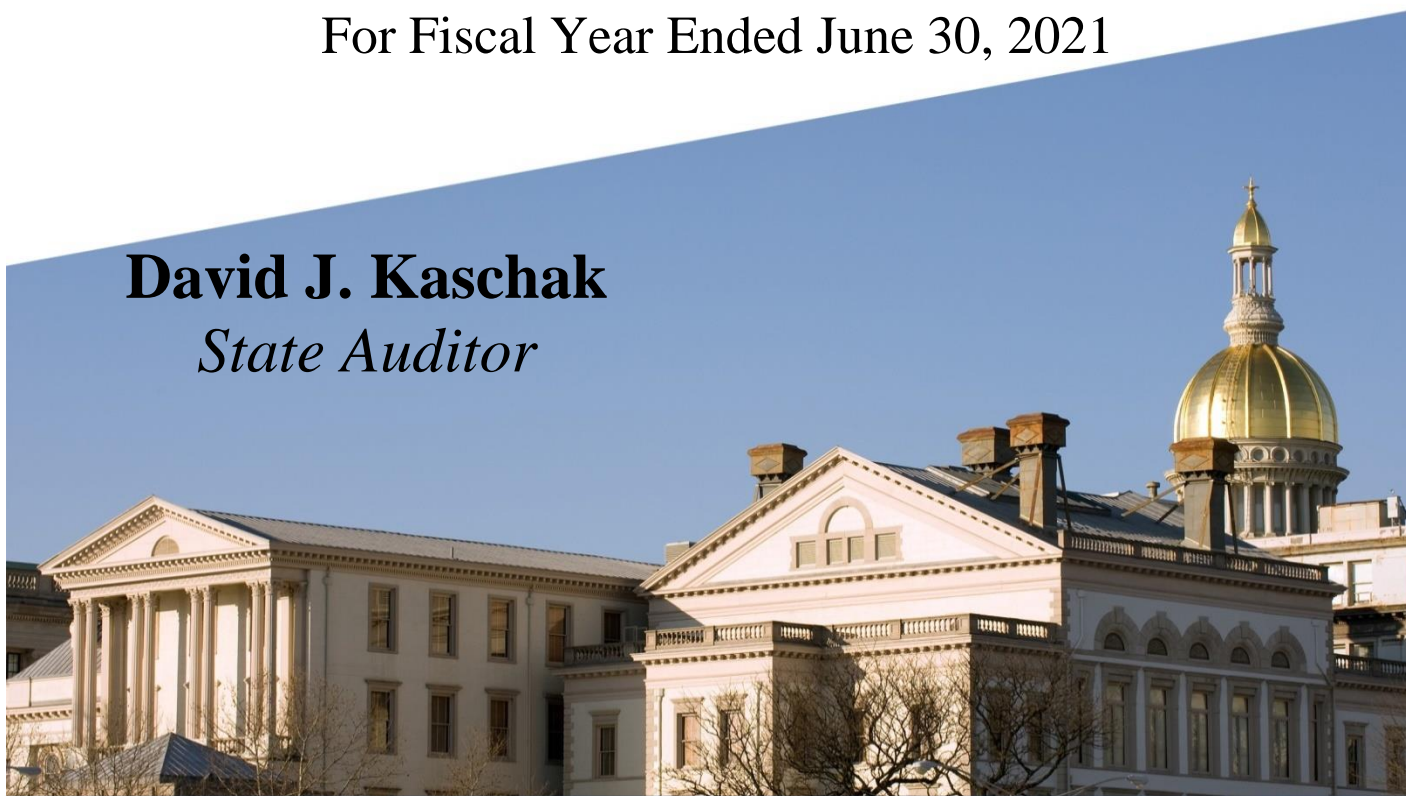


New Jersey Legislature
★ *Office of* LEGISLATIVE SERVICES ★
OFFICE OF THE STATE AUDITOR

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, 2021

David J. Kaschak
State Auditor



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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
Acting 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, 2021 and have issued our report thereon dated May 25, 2022. 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 cursive script that reads "David J. Kaschak".

David J. Kaschak
State Auditor
June 3, 2022

**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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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

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
Acting 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, 2021, 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 May 25, 2022. 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 2021-001 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
May 25, 2022

State of New Jersey
Schedule of Findings and Responses

Finding 2021-001 - 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 two audit adjustments totaling \$560,442,128 to the UI Fund's Accounts Receivable, Benefits Payable, Benefits Expense, and Revenue accounts because of omissions and calculation errors regarding estimates made by the DOLWD. The first audit adjustment was to record an omission of a year-end accrual for Benefits Payable related to the Federal Pandemic Unemployment Compensation (FPUC) program totaling \$348,148,800 the DOLWD failed to record. Since FPUC payments were federally reimbursed, thereby requiring an offsetting receivable, this error had no effect on the total Net Position. The second audit adjustment occurred because the DOLWD changed their methodology, which contained an error in the calculation of uncollectible accounts receivable related to employer and employee contributions. This audit adjustment decreased the total Net Position by \$212,293,328.

Additionally, our audit found the DOLWD has not reviewed or adjusted the rate it uses for their Benefits Overpaid Receivable collections since 2014. The DOLWD has experienced a significant increase in suspicious claims paid from \$32,933,333 in fiscal year 2020 to \$232,670,866 in fiscal year 2021 as a result of increased claims activity during the COVID-19 pandemic. The DOLWD deems the majority of the suspicious claims paid to be improper or fraudulent. Even though fraudulent claims, such as identity theft cases, are deemed for the most part uncollectable, the DOLWD has not adjusted the historic 18 percent collection rate. Failure to analyze the effect of current events on the receivables could result in an overstatement of the total Net Position.

Legislation has established the rate employers will contribute to the Unemployment Compensation Fund through fiscal year 2024. Absent any future legislation, the contribution rates to be established in the future will be based on a formula to which the UI Fund's Net Position is a component. Therefore, errors affecting the total Net Position could affect the contribution rates.

Recommendation

We recommend the DOLWD conduct a more independent and detailed review and approval process of the UI Fund's financial statements, including their calculations of estimates, prior to submission to OMBFR. Additionally, we recommend the DOLWD periodically review the collection rate related to benefits overpaid to account for the impact of current events.



State of New Jersey

PHILIP D. MURPHY
Governor

OFFICE OF THE STATE TREASURER
P. O. Box 002
TRENTON, NEW JERSEY 08625-0002

SHEILA Y. OLIVER
Lt. Governor

ELIZABETH MAHER MUOIO
State Treasurer

May 31, 2022

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 2021-001 - 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 two audit adjustments totaling \$560,442,128 to the UI Fund's Accounts Receivable, Benefits Payable, Benefits Expense, and Revenue accounts because of omissions and calculation errors regarding estimates made by the DOLWD. The first audit adjustment was to record an omission of a year-end accrual for Benefits Payable related to the Federal Pandemic Unemployment Compensation (FPUC) program totaling \$348,148,800 the DOLWD failed to record. Since FPUC payments were federally reimbursed, thereby requiring an offsetting receivable, this error had no effect on the total Net Position. The second audit adjustment occurred because the DOLWD changed their methodology, which contained an error in the calculation of uncollectible accounts receivable related to employer and employee contributions. This audit adjustment decreased the total Net Position by \$212,293,328.

Additionally, our audit found the DOLWD has not reviewed or adjusted the rate it uses for their Benefits Overpaid Receivable collections since 2014. The DOLWD has experienced a significant increase in suspicious claims paid from \$32,933,333 in fiscal year 2020 to \$232,670,866 in fiscal year 2021 as a result of increased claims activity during the COVID-19 pandemic. The DOLWD deems the majority of the suspicious claims paid to be improper or fraudulent. Even though fraudulent claims, such as identity theft cases, are deemed for the most part uncollectable, the DOLWD has not adjusted the historic 18 percent collection rate. Failure to analyze the effect of current events on the receivables could result in an overstatement of the total Net Position.

Legislation has established the rate employers will contribute to the Unemployment Compensation Fund through fiscal year 2024. Absent any future legislation, the contribution rates to be established in the future will be based on a formula to which the UI Fund's Net Position is a component. Therefore, errors affecting the total Net Position could affect the contribution rates.

Recommendation

We recommend the DOLWD conduct a more independent and detailed review and approval process of the UI Fund's financial statements, including their calculations of estimates, prior to submission to OMBFR. Additionally, we recommend the DOLWD periodically review the collection rate related to benefits overpaid to account for the impact of current events.

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 be utilizing their Internal Audit group to perform a third-party independent review of their financial statements, including estimate and accrual calculations, beginning in Fiscal Year 2022. Additionally, DOLWDFR will be conducting an annual review of their collection rates related to benefits overpaid.

Sincerely,



Elizabeth Maher Muoio
State Treasurer

nm



PHILIP D. MURPHY
Governor

SHEILA Y. OLIVER
Lieutenant Governor

State of New Jersey

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT
P.O. BOX 110, TRENTON, NEW JERSEY 08625-0110

ROBERT ASARO-ANGELO
Commissioner

May 27, 2022

Elizabeth Maher Muoio
State Treasurer
Department of the Treasury
PO Box 002
Trenton, New Jersey 08625-0002

Re: Response to 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 for the Fiscal Year Ended June 30, 2021, Finding 2021-001 Unemployment Compensation Fund (UI Fund)

Dear State Treasurer Elizabeth Maher Muoio,

I am in receipt of the above-entitled report and would like to respond most specifically to the audit finding relating to the Benefits Overpaid Receivable collections. New Jersey, like all other states experienced a significant increase in the amount of suspicious claims as a direct result of COVID-19 and in part to the implementation of the newly created temporary programs authorized by the CARES Act (FPUC, PUA, PEUC). The comparison stated in the report, is not “apples to apples,” as the suspicious claims value for fiscal year 2020 was based primarily on UI claims, while the suspicious claims value for fiscal year 2021 was a combination of UI, FPUC, PUA and PEUC. In particular, the PUA program placed benefit eligibility and earnings records solely on the claimant’s self-certification, thereby allowing a greater opportunity for fraud. Likewise, any suspicious claims related to FPUC, PUA and PEUC are reimbursable to New Jersey by USDOL. Existing statute took precedence in setting the employer UI rate table column.

My department will however take the following actions to address the following two findings:

With respect to the State Auditor’s recommendation to “conduct a more independent and detailed review and approval process of the UI Fund’s financial statements,” we will utilize the Department of Labor & Workforce Development’s (DOLWD’s) Office of Internal Audit to conduct an annual, independent and detailed review of the Unemployment Compensation Fund’s financial statements prior to the submission to the Office of Management & Budget Financial Reporting.

With respect to the State Auditor’s recommendation to “periodically review the collection rate related to benefits overpaid to account for current events,” while an informal review process is and



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ROBERT ASARO-ANGELO
COMMISSIONER

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has been in place, we will document and perform a formalized annual review of the collection rate in a coordinated effort between DOLWD's Office of Finance & Accounting, Office of Income Security and the Office of Internal Audit.

If you have any question please contact Theresa Vallely, Director of Internal Audit, at Theresa.Vallely@dol.nj.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Asaro-Angelo", with a long horizontal flourish extending to the right.

Robert Asaro-Angelo
Commissioner

c: Michael Griffin
Jeff DeCicco
Paul Yuen
Julie Diaz
Gordon V. Horvath, Jr.
Kathy Bencivengo
Erica Slaughter
Theresa Vallely
Irene Torunoglu