
New Jersey Office of Legislative Services Office of the State Auditor



2017 Annual Report

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

Stephen M. Fells, State Auditor

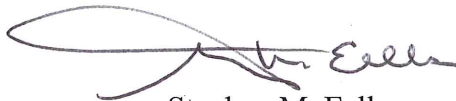
Message from the State Auditor

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 2017. 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 2017 which identified \$34.6 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
April 23, 2018

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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 2017, we identified \$34.6 million in new cost savings and revenue enhancements. A schedule of cost savings and revenue enhancements is presented on page 4. The office provided additional cost savings by providing the required New Jersey Law and Ethics Course to 125 state employees who are certified public accountants free of charge. In addition, the office provided training in various topics at no charge. Our compliance review on findings related to audit reports issued during the fiscal year ended June 30, 2016 disclosed that 83 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 2015 recommendations rose to 88 percent.

The office performs the annual financial audit of the state's Comprehensive Annual Financial Report (CAFR). The CAFR engagement includes the audit of 144 funds and component units which had a full accrual accounting total asset value of \$215 billion at June 30, 2017.

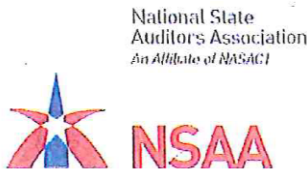
INTRODUCTION

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 2017, 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 5.

**OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF COST SAVINGS AND REVENUE ENHANCEMENTS
REPORTS ISSUED DURING CALENDAR YEAR 2017
(Expressed in Thousands)**

<u>REPORT</u>	<u>COST SAVINGS AND/OR REVENUE ENHANCEMENTS</u>
Department of Human Services	
Division of Medical Assistance and Health Services	
Transportation Broker Services Contract - Capitation Rates	\$ 20,800
Division of Mental Health and Addiction Services	
Integrated Case Management Services, Program for Assertive Community Treatment, and Intensive Outpatient Treatment and Support Services	607
Licensed Residential Programs	
Serving Individuals with Developmental Disabilities	3,000
Department of Labor and Workforce Development	
Division of Vocational Rehabilitation Services	395
Department of Military and Veterans' Affairs	539
Department of the Treasury	
Division of Purchase and Property	
Temporary Staff Services	<u>9,302</u>
<i>Total Cost Savings and Revenue Enhancements</i>	<u>\$ 34,643</u>



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PEER REVIEW REPORT June 9, 2017

Honorable Stephen M. Eells
New Jersey State Auditor
125 South Warren Street
Trenton, NJ 08625

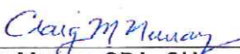
Dear Mr. Eells:


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, 2016 through April 30, 2017. 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, 2016 through April 30, 2017 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*.**


Craig Murray, CPA, CIA
Concurring Reviewer
External Peer Review Team
National State Auditors Association


Norman Bratton, CPA, CIA, CFE, CGFM
Team Leader
External Peer Review Team
National State Auditors Association

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. Two other financial audits were issued in calendar year 2017.

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 2017. These audits encompassed \$3.1 billion and \$272.0 million 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 2017, we reported on Information Technology Governance.

The office has trained all audit staff on the basics of integrated auditing, where non-IT 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 one such school district in calendar year 2017.

Legislative Requests

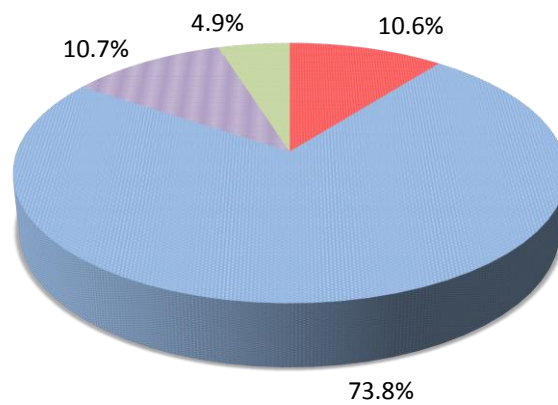
From time to time the Legislative Services Commission and Legislative leadership request the State Auditor to conduct special projects of the fiscal practices and procedures of the state and state-supported agencies, and to report findings to the Commission.

AUDIT REPORTS

DISTRIBUTION OF AUDIT HOURS

The distribution of audit hours used in performing audits during calendar year 2017 is depicted on the following chart.

DISTRIBUTION OF AUDIT HOURS



- Financial Audits - 10.6%
- Performance Audits - 73.8%
- Information Technology (IT) Audits and Support - 10.7%
- School District Audits - 4.9%

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 92 professional and 5 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, 2017, fifty-six staff members, 62 percent of the 91 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 administered by 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, statistical sampling, and training. An intranet site is also maintained that contains staff information, state 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, 2017**

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

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Franklin F. Bowker, MBA
Timothy D. Bush, CPA

Robert F. Gatti, CPA
Anthony J. Glebocki, CPA, CFE, CGFM
Linda Maher, CGFM

Charles Y. Paslawsky, MAccy
William D. Robinson, CPA
Thomas Troutman, CPA, CIA, CGFM

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Kenyon Booker, CGAP
Scott Brevet, CPA
Cynthia S. Burdalski
Donna M. Castelli, CICA
John J. Coyle, CPA
Tanya Cuccia, CISA, CGAP
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Anna Lorenc
Richard J. McHale
Joshua Mastro, CFE
Kristen Menegus, CGAP
Smaragda Ng, MBA
Stacey O'Brien, MBA, CPA
John R. Pullen

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Stephanie A. Titus, MBA
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Morgan Cole
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Lesia Didukh, MBA
Meghan Ellis
Nikki Farrell, CICA
Eric G. Fonseca
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Richard Grahovac, CFE, CGFM
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Rachel A. Haines
Kenneth P. Henderson
Kevin Holt
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Alicia M. Jewell, MAccy
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Jennifer Suchan, CISA
Hiral Singh, MBA, CPA
Justin Toldt, MS, CPA
Shrushti Trivedi

ADMINISTRATIVE STAFF

Megan Osorio, Support Services Assistant
Barkley Sury, 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 audits issued during the past year that contained cost savings and revenue enhancements totaling \$34.6 million. Information on these reports is presented on pages 14 through 26. Other reports of interest that contain significant findings and observations from five additional audits are on pages 27 through 39. 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 2017 are identified on a schedule on pages 40 through 41 and are available for review on our website.

ACCOMPLISHMENTS AND RESULTS COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF HUMAN SERVICES DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES TRANSPORTATION BROKER SERVICES CONTRACT - CAPITATION RATES

Capitation Rate

Our calculation, based on actual direct Medicaid transportation costs submitted as encounter claims, disclosed that the Department of Human Services, Division of Medical Assistance and Health Services (division) paid excess capitation of at least \$20.8 million during our audit period in addition to the \$27.2 million of voluntary returned capitation from the broker. The Division of Purchase and Property has issued a Request for Proposal (RFP) for a new transportation broker services contract and is in the process of reviewing bids. A major change with the new RFP requires the broker's direct transportation costs to be at least 80 percent of capitation payments received. Although this requirement is not in the terms of the current contract, we used the 80 percent minimum requirement from the new RFP to calculate reasonable costs. The schedule below shows our calculation of the excess capitation paid using this methodology.

	Capitation Paid	① Net Capitation	② Actual Direct Costs	③ Anticipated Capitation	④ Excess Capitation
FY 2015	\$ 171,692,327	\$ 162,013,069	\$ 118,504,748	\$ 148,130,935	\$ 13,882,134
FY 2016	\$ 177,943,794	\$ 159,732,509	\$ 122,245,847	\$ 152,807,309	\$ 6,925,200
TOTAL	\$ 349,636,121	\$ 321,745,578	\$ 240,750,596	\$ 300,938,245	\$ 20,807,333

① - Net Capitation = Capitation Paid - Liquidated Damages - Capitation Returned
② - Actual Direct Costs = Paid Encounters + Denied Encounters
③ - Anticipated Capitation = Actual Direct Costs / 80% Requirement
④ - Excess Capitation = Net Capitation - Anticipated Capitation

As illustrated above, we compared the net capitation paid (capitation paid *less* liquidated damages *less* capitation returned) to the actual direct costs (encounter claims *plus* denied encounter claims) submitted by the broker each month, to determine if the direct costs were within 80 percent of the capitation paid. While the monthly percentage calculated ranged between 64 and 84 percent, we found that direct transportation costs of the broker averaged only 74.8 percent of the capitation paid during our audit period. We calculated that the division could have paid the broker \$20.8 million less for these services, and actual direct costs would have been at 80 percent of capitation paid.

We determined actual direct costs using encounter data from the division's shared data warehouse (SDW). The contract requires the broker to provide monthly encounter claims to the state's fiscal agent, who then subjects the claims to various edits. In addition, the new RFP, which was issued in July 2014, establishes the encounter records as the basis for reconciliation

ACCOMPLISHMENTS AND RESULTS

COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF HUMAN SERVICES

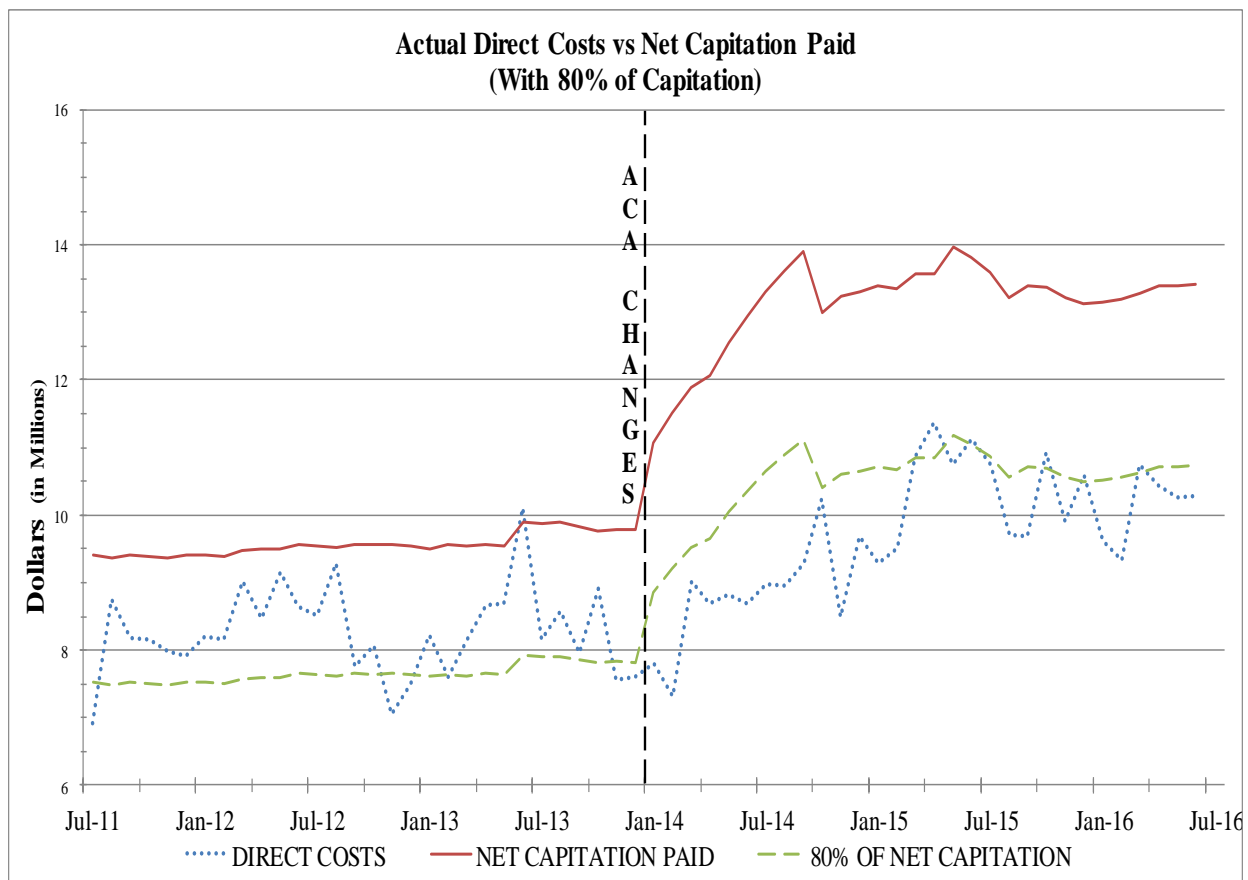
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES

TRANSPORTATION BROKER SERVICES CONTRACT - CAPITATION RATES

(continued)

to the broker's records. The division instead relies on reports submitted by the broker, even though they do not audit or verify these reports, to assure them the capitation they have paid is reasonable when compared to direct costs. The broker reports show that their direct costs meet the 80 percent minimum requirement established by the new RFP. We did not rely on the costs reported by the broker because they are not audited. We did, however, include denied encounter claims in our calculation in order to give the broker the benefit of the doubt and to be more conservative in our overpayment calculation.

Our comparison of the capitation payments to actual direct costs from fiscal year 2012 to fiscal year 2014 disclosed that the capitation rates were reasonable for most of this period. However, as a result of provisions of the Affordable Care Act (ACA) becoming effective January 1, 2014, the number of eligible Medicaid recipients increased significantly. The following chart depicts the net capitation paid, the 80 percent of net capitation payment amounts, and the direct costs of the broker to provide transportation services each month per SDW claims.



ACCOMPLISHMENTS AND RESULTS
COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
TRANSPORTATION BROKER SERVICES CONTRACT - CAPITATION RATES
(continued)

Our analysis indicated that the 500,000 newly eligible recipients resulting from the ACA changes were comprised almost exclusively of 19 to 64-year-olds. This age group did not use transportation services as frequently as the original Medicaid population. However, the only adjustment to the capitation rate since the expansion of the population was a decrease from \$9.16 to \$9.04 on July 1, 2014. No other rate adjustments were made when extensions were granted to the original contract, despite there being a much larger population using proportionally less services. As a result, monthly capitation payments since January 2014 have increased significantly, while actual direct costs have increased minimally.

ACCOMPLISHMENTS AND RESULTS

COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF HUMAN SERVICES

DIVISION OF MENTAL HEALTH AND ADDICTION SERVICES

INTEGRATED CASE MANAGEMENT SERVICES, PROGRAM FOR ASSERTIVE

COMMUNITY TREATMENT, AND INTENSIVE OUTPATIENT TREATMENT AND

SUPPORT SERVICES

Licensing Fees

The licensing standards for mental health programs require providers to pay annual renewal fees of \$575 for each program element and \$287.50 for every additional program. The Department of Human Services, Office of Licensing is responsible for determining appropriate provider fees to be billed, while the Department of Human Services, Office of Finance is responsible for billing and collecting the fees.

A review of the licensing fees billed and collected for fiscal years 2012 through 2015, as of September 2015, disclosed licensing fees were not being billed and collected as required.

- FY 2012 – No fees were billed, but a small number of providers paid the required fees regardless. The Department of Human Services, (department) was unable to tell us how much of the \$254,400 that should have been billed was collected.
- FY 2013 – The Office of Finance took over the billing process, and providers were billed \$288,000 with a total of \$235,000 collected.
- FY 2014 – No fees were billed, but \$10,300 was paid by providers.
- FY 2015 – No fees were billed, but \$6,600 was paid by providers.

The department took steps to address this issue during our audit. As of June 2016, providers were billed \$607,000 for fiscal years 2014 and 2015 with collections totaling \$521,000. Fiscal year 2016 billings were expected to take place in September 2016.

ACCOMPLISHMENTS AND RESULTS COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF HUMAN SERVICES LICENSED RESIDENTIAL PROGRAMS SERVING INDIVIDUALS WITH DEVELOPMENTAL DISABILITIES

Observation

Criminal History Background Check Fees

Any provider employee who may come into direct contact with individuals receiving services is statutorily required to undergo a criminal history background check, with additional checks every two years. Pursuant to N.J.S.A. 30:6D-72, the Department of Human Services (department) assumes those costs entirely. During the period January 1, 2013 through September 30, 2016, more than 58,000 criminal history background checks were performed by the department at a cost of over \$3 million.

We researched similar programs for five states surrounding New Jersey, and each requires the provider or employee to cover the cost of a criminal history background check, either in whole or in part. In addition, other state departments responsible for monitoring criminal history records require prospective employees to pay for the entire cost of a criminal background check. Applicants for positions in New Jersey's public schools, charter schools, and private schools for students with disabilities pay for their criminal background check, as well as an administrative fee paid to the Department of Education.

ACCOMPLISHMENTS AND RESULTS COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT DIVISION OF VOCATIONAL REHABILITATION SERVICES

Hydroponic Farm

In July 2012, a not-for-profit hydroponic farm was established in Monmouth County by the Department of Labor and Workforce Development, Division of Vocational Rehabilitation Services (division) clients with the assistance of division counselors. The mission of the farm was to train and employ persons with disabilities in the hydroponic growth of vegetables, herbs, and fruits. The clients served as officers and employees of the farm, while the counselors participated as unpaid members of the farm's board of directors. The counselors also referred new clients to the farm for training and possible employment. A total of \$395,332 was invested in the farm which included \$230,332 of federal funds and \$165,000 from the New Jersey Workforce Development Partnership Fund. The farm officially opened to the public in September 2013 and ceased operations in February 2015.

The federal funds included a grant of \$150,000 that was utilized to pay for hydroponic equipment, attorney fees, and other start-up costs. However, according to division records, actual disbursements totaled \$153,850 including one overpayment of \$12,100 for hydroponic equipment. Additional federal funds totaling \$76,482 were expended. All of the federal funds were documented as payments for services rendered to specific clients. Funds designated to specific clients are typically disbursed for services that directly benefit those clients and help them to achieve an employment outcome. We estimated the value of services paid for with federal funds that directly benefited the clients was only \$13,192. Of the \$230,332 in federal funds expended, \$88,245 (38 percent) had no supporting documentation, and \$5,086 was paid for services rendered to a client whose case could not be found in the system.

A New Jersey Workforce Development Partnership Fund grant was also awarded to the farm to provide training, placement, and retention services to clients. Of the \$165,000 paid, \$25,500 was for services to clients who, according to the division's case notes, never attended training as there were no records of the clients visiting the facility. One of these clients was identified as "Anticipated Participant" and two others were identified as "HS Student". We also found the division paid for the same services multiple times resulting in net overpayments totaling \$45,000.

Adequate review of invoices by the division, along with proper supporting documentation, would have prevented overpayments of both federal and state funds.

After the farm closed, all greenhouses, equipment, and materials were abandoned and left at the location. As of December 31, 2016, no funds or assets were recovered by the state or the federal government. There were 27 clients who either worked or attended training at the farm. As of January 31, 2017, none of these clients have found agriculture-related employment which was the primary objective of the farm.

ACCOMPLISHMENTS AND RESULTS

COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS

Post-Traumatic Stress Disorder/Readjustment Counseling Program

The Department of Military and Veterans' Affairs (DMAVA), Division of Veterans' Services (DVS) provides a program that offers post-traumatic stress disorder/readjustment (PTSD) counseling to New Jersey resident veterans who suffer mental or emotional disorders as a result of combat related experience. Family members of such veterans, whose problems date to the veteran's emotional/mental disorder, are also eligible for counseling. Application for these services is handled through a DMAVA Veterans Service Officer (VSO), who should conduct initial screening interviews and document eligibility for services through the completion and approval of a contract authorization form. A VSO should then contact the DVS Program Manager to determine the current status of the program regarding open availability or if a veteran is placed on a waiting list. Per the contract, counseling is provided by social workers, psychologists, psychiatrists, or other licensed counselors individually or in groups.

The DVS is responsible for overseeing the funding of the program and the services provided by clinicians to eligible veterans through contracted licensed mental health professionals. DMAVA contracted on a yearly basis with 11 service providers who, in total, provided counseling to an average of 775 clients. If subcontractors are utilized by any of the providers, the contract states that prior approval must be obtained from DMAVA, and copies of the subcontracts must be forwarded to the department, and shall become part of the overall contract.

Reimbursement to providers for services rendered is based on how long the individual has been enrolled in the program. The reimbursement rate is tracked in the DVS's client database which contains the admittance date, the number of months a client has been in the program, and correlates to the reimbursement percent of the negotiated rate paid to the provider.

Our review found that DVS did not maintain a complete list of the counselors providing services through the contracted mental health professional vendors and did not ensure that the counselors are licensed to provide the service. We obtained multiple partial lists from DVS and compiled a collective list of 63 individuals who were purported to be providing counseling to the clients. We found nine individuals working for the providers who were not licensed through the New Jersey Division of Consumer Affairs. We were unable to determine if any of the unlicensed individuals counseled the clients because DVS staff destroyed the supporting documentation received which was not in compliance with the New Jersey Destruction of Public Records Act of 1953.

We further found that DMAVA was unaware of which providers were subcontracting the counseling services. We found nine of the eleven providers had a total of 32 individuals who were not employees of the providers. No subcontracts for these individuals were maintained by DMAVA.

ACCOMPLISHMENTS AND RESULTS COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS (continued)

New Jersey Administrative Code 5A:6-2.5 requires all individuals applying for counseling services to be seen by a state VSO. Our review of the application process noted that the applications for services are not always made directly to one of the state VSOs. Our review of one provider's applications noted that none of them went through one of the state's VSOs, but rather a county VSO and the program manager for all but one. In this one, the provider completed and approved the internal DMAVA contract service authorization form. The administrative code further states that any counseling services provided to a client without proper referral from a state VSO shall become the responsibility of the provider. In addition, not following the approval process creates a lack of segregation of duties because the program manager approves the contract service authorization form and also approves the program availability.

Our review of the contracts and the monthly bills submitted by the providers found the following issues.

- One provider was paid \$47,360 for services in fiscal years 2015 and 2016, even though the service and price charged were not included in the contract.
- The reimbursement rate utilized on providers' bills was not in agreement with the reimbursement rate maintained by DMAVA in the DVS's client database. This resulted in overpayments to the providers during our review. One such provider was overpaid \$4,790 because of differences in admittance dates.
- Individuals were not entered into DVS's client database, but rather were added, in pencil, onto the monthly billing sheets, so there was no tracking of the enrollment into the program and the applicable reimbursement rate. We noted individuals receiving services that were penciled in for periods ranging from one or two visits up to several visits for several years.
- One provider increased their last fiscal year invoice by increasing the client's reimbursement rate for the particular month to the previous rate resulting in an overpayment of \$12,000 and subsequently lowering the client's reimbursement rate the following month to the previous rate.
- At the end of fiscal years 2015 and 2016, the program had unspent, lapsable state funds of \$4,600 and \$13,700, respectively, which they allocated between three and five providers, respectively, without supporting services provided.

Civilian Firefighters

The New Jersey Air National Guard located at the Atlantic City International Airport utilizes military firefighters for wartime tasking and civilian firefighters for daily operations. The

ACCOMPLISHMENTS AND RESULTS COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS (continued)

civilian firefighters are tasked with day-to-day fire protection and technical service operations at the Atlantic City Air Base. While working alongside their military counterparts, the civilian firefighters support all organizational exercises, inspections, and assessments. Civilian firefighters can become active military firefighters during their active duty. The civilian firefighters are paid by the state, and the state is subsequently reimbursed by the federal government through a master cooperative agreement (MCA), up to a specific dollar amount. The remaining balance is funded through state appropriations.

As of April 2016, there were 16 firefighters staffing the 24-hour operation. Based on a 1993 Memorandum of Agreement (MOA) between the Communications Workers of America (CWA) and DMAVA, the civilian firefighters work 106 hours per 14-day pay period. Scheduling of the firefighters is handled by the staff of the Atlantic City Air Base with minimal DMAVA oversight. MCA firefighter procedures established a minimum of four firefighters to be scheduled per shift including; four dates involving 24.5-hour shifts and one 8-hour shift during each two-week pay period thereby equating to 106 hours per pay period. Deviations of these times may be necessary to cover unusual or other mission requirements.

Our analysis of calendar year (CY) 2016 through pay period 23 noted the average leave time taken per civilian firefighter was 35 hours per pay period, which resulted in firefighters working only 71 hours of the 106 hours. The average total leave time taken per firefighter for CY 2016 through pay period 23 was 803.8 hours. Therefore minimum coverage during an average pay period is achieved through overtime compensation, including granting compensatory time-off which ultimately results in additional costs. Overtime payments totaled approximately \$274,000 for 5,791.5 hours and \$285,500 for 6,351 hours in CY 2015 and CY 2016, respectively. In total, the average amount of overtime hours per pay period for CY 2016 was 244 hours, or 15 hours per firefighter each pay period.

The current scheduling has also resulted in additional cost to the state because of the practice of allowing unlimited accrued compensatory time balances. As of March 2017, nine of the fifteen firefighters had accrued balances that exceeded sixty hours of compensatory time. The union contract states that ordinarily a maximum of sixty hours of compensatory time may be carried by an employee. Two employees that terminated during our audit period were paid a combined total of \$36,000 for 983 hours of accrued compensatory time. In addition to the paid compensatory time, one of the terminated employees also received a combined total of \$27,000 for accrued sick and vacation time. Final payments are not reimbursable from the federal government and therefore incurred by the state.

This condition was previously noted in an internal report and continued to be an issue during our audit period and has cost the state an additional \$456,910 in fiscal year 2016 with \$435,323 attributed to salary costs that exceeded the MCA's designated limits.

ACCOMPLISHMENTS AND RESULTS COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS (CONTINUED)

The work schedule also contributed to the excessive salary costs. At the beginning of each year, civilian firefighters are credited with 104 compensatory hours in lieu of paid holidays and receive an additional 4 compensatory hours if they are scheduled and subsequently work a state holiday. In addition, under the 1993 CWA MOA, employees are also entitled to 158.4 hours of sick and vacation leave each year which varies from 127 hours to 264 hours depending upon an employee's years of service. The firefighters are permitted to use unearned compensatory time in addition to accrued leave time to fulfill regular shifts and then be paid for overtime the same day. In addition, civilian firefighters, who are also in the military, can be on military leave time and then also work civilian hours during that same pay period and receive overtime payments. As a result of the 106-hour pay period, the MOA established sick and vacation leave allowances above the standard state employee allotment. In addition, "premium pay" of 25 percent is included in firefighters' annual salary in recognition of the amount of time worked in excess of a regular 40-hour work week. This higher salary is used when determining their per diem pay rates when calculating overtime and compensatory time.

ACCOMPLISHMENTS AND RESULTS COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF THE TREASURY DIVISION OF PURCHASE AND PROPERTY TEMPORARY STAFFING SERVICES CONTRACT

Analysis of Cooperative Agreement Cost Effectiveness

New Jersey Administrative Code 17:12-1A-3 allows goods or services to be purchased through a contract awarded through a cooperative procurement agreement if the division determines this is the most cost-effective method of procurement. A cooperative procurement agreement was entered into replacing two expiring contracts for office and clerical titles and for paralegal and secretarial titles. The cooperative procurement agreement gave the various state agencies the ability to procure any title, not only those from the two expiring contracts.

Before the agreement was approved, an analysis was performed showing that cost savings would be achieved by utilizing the agreement. We found this analysis, which was prepared by both the awarded contract vendor and the Department of The Treasury, Division of Purchase and Property (division), to be inadequate. A new proposed price list was not provided with the analysis for comparison to the expiring contracts, only a spreadsheet of unsupported information of potential cost savings was included. Our review of the amounts actually expended under the agreement during calendar year 2015 disclosed that it is costing an estimated \$4 million (28 percent) more than the division's initial analysis for the titles which were previously under contract.

Affordable Care Act

In response to requirements' of the Affordable Care Act (ACA), a wage markup increase for every labor category in the cooperative procurement agreement was approved on June 25, 2015 because of the increased cost to the vendor. However, most temporary workers are not obtaining health care insurance through the vendor. The markup associated with temporary workers not receiving health care insurance through the vendor should be reimbursed to the state. The division did not adequately convey to using agencies that they should seek reimbursement for any unused ACA payments. We brought this to the division's attention and the vendor has agreed to reimburse the state \$302,000 for calendar year 2015 overpayments.

ACCOMPLISHMENTS AND RESULTS

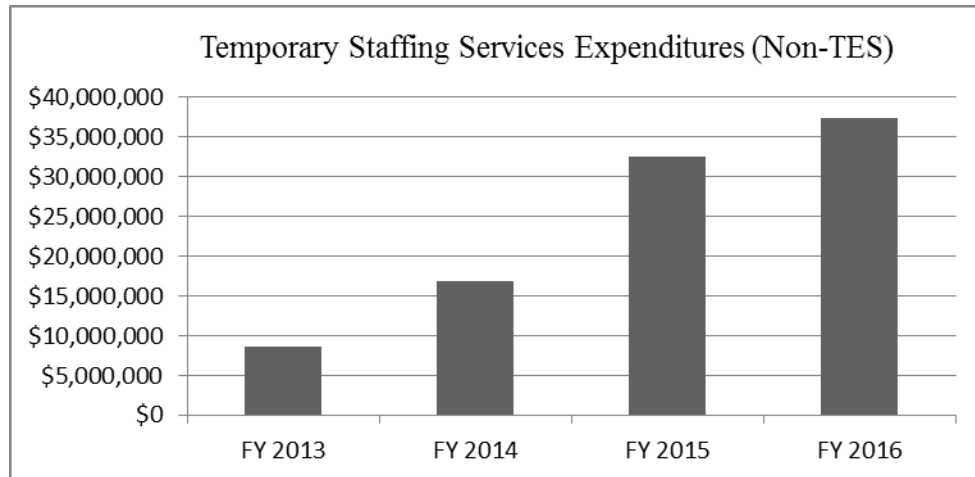
COST SAVINGS AND REVENUE ENHANCEMENTS

DEPARTMENT OF THE TREASURY DIVISION OF PURCHASE AND PROPERTY TEMPORARY STAFFING SERVICES CONTRACT (continued)

Observation

Temporary Staffing Services

While the state payroll has decreased by 4,700 employees since 2013, temporary staffing services expenditures have progressively increased since fiscal year 2013 as shown in the following chart.



The cooperative procurement agreement allows for the procuring of titles that are not specifically identified in the agreement. Titles can be easily added whenever a need arises. The vendor determines the title's competitive rate through the New Jersey Department of Labor and Workforce Development prevailing wage website. In addition, miscellaneous titles can be procured for any labor category, with hourly rates negotiated or determined by the state agency. The hourly rates include vendor markup rates which are generally higher for the miscellaneous titles. There are no restrictions or limitations stated in the cooperative procurement agreement regarding these positions. Our review determined \$13 million has been disbursed by the state for miscellaneous positions since the cooperative procurement agreement's inception in 2013.

State agencies have the option to hire state temporary employment services (TES) positions. However, job assignments are for an aggregate period of not more than six months in a 12-month period. There is no such limit with temporary employees hired through the cooperative procurement agreement. We identified 893 (non-TES) temporary employees working more than six months in a year, 300 of which did so in consecutive years. Agencies appear to be shifting their resources from TES employees to the vendor in order to bypass the limit.

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

**DEPARTMENT OF THE TREASURY
DIVISION OF PURCHASE AND PROPERTY
TEMPORARY STAFFING SERVICES CONTRACT (continued)**

We identified 58 former TES employees that are now procured through the vendor. From calendar year 2013 through calendar year 2015, the state paid \$475,000 more for their services than would have been paid had they remained TES employees. If all positions were filled through TES hiring versus vendor procurement, the state could have saved an estimated \$5 million in calendar year 2015.

The cooperative procurement agreement also allows direct referrals by state agencies for specific individuals they want to hire. Direct referrals may undermine the core mission of the state Civil Service process. Their mission is to provide an employee selection system designed to attract and retain a high-quality, diverse workforce in accordance with established merit system principles and guidelines to ensure a fair and efficient human resource delivery system that rewards quality, merit, and productivity. There were 427 direct referrals in calendar year 2015, 23 of whom were retired state employees, including 19 who worked for the same state agency from which they retired.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

CITY OF BAYONNE SCHOOL DISTRICT

General Fund Budgetary Deficit

Unreported Prior Year Reserve

Pursuant to N.J.S.A. 18A:7F-7, all regular districts must perform the excess surplus calculation using the greater of 2 percent of general fund expenditures or \$250,000. Amounts calculated in excess of 2 percent that have not been appropriated in the subsequent year's budget must be reported in the "Reserve for Excess Surplus" category in the current year's Comprehensive Annual Financial Report (CAFR) and appropriated in the subsequent year's budget at the end of the next year. The amount which has been included in the subsequent year's budget should be reported in the "Reserve for Excess Surplus - Prior Year - Designated for Subsequent Years" category.

At fiscal year-end 2015, the Bayonne School District (district) reported a General Fund budgetary fund balance of \$9,384,893 and within the classification "Reserve for Excess Surplus", a budgetary fund balance reserve of \$1,523,324 to be appropriated in the 2016-2017 budget. However, this reserve was determined without regard for a legally restricted prior year reserve for excess surplus of \$4,744,715 as reported at fiscal year-end 2014. This reserve was designated as a use of the General Fund budgetary fund balance in the fiscal year 2016 budget but was not disclosed at fiscal year-end 2015. When this amount is considered along with other identified restrictions on the fiscal year-end 2015 budgetary fund balance, there would not have been an excess surplus reserve of \$1,523,324 (see table following *Year-end Encumbrances*).

Year-end Encumbrances

The Department of Education (DOE), Office of School Finance 2015-2016 audit program urges district's public auditors to perform a thorough review and analysis of open purchase orders in conformity with the Year-End Encumbrance Hotline issued September 16, 2003. Per the audit program and the hotline, purchase orders to be honored in the subsequent year will be rolled over into the next fiscal year and will be shown at June 30 as year-end encumbrances. As a general rule, for other than construction contracts, the liquidation of these orders should be within 60-90 days of year end. Additionally, the district's audited financial statements state that the year-end encumbrances represent commitments related to unperformed contracts for goods and services.

The district's fiscal year 2016 General Fund year-end encumbrances were \$5.9 million (see first table in this report). We reviewed 97 of 375 encumbrances totaling \$5.6 million and concluded that over \$4.2 million was encumbered for the following year's expenditures and did not represent unperformed contracts at year end. The largest encumbrances included \$1 million for fiscal year 2017 worker's compensation insurance renewal (appropriateness of this encumbrance was also questioned by the DOE's Office of School Finance), over \$800,000 for fiscal year 2017 electric and gas expenditures, \$720,000, for fiscal years 2017 and 2018 computer lease payments, and \$417,000 for fiscal year 2017 staff equipment lease payments.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

CITY OF BAYONNE SCHOOL DISTRICT (continued)

Encumbering money in the accounts that had significant end-of-year balances was a common accounting practice.

As a result of our review of fiscal year 2016 encumbrances, we also examined fiscal year 2015 General Fund year-end encumbrances greater than \$75,000, totaling \$2.3 million, and concluded that over \$1.8 million was encumbered for the following year's expenditures. Inappropriate encumbering of these funds had a significant impact on the reported unassigned budgetary fund balance deficit at the end of fiscal year 2016.

If the reserve was properly identified and fiscal year 2015 and 2016 funds were appropriately encumbered, the unassigned budgetary fund balance would have been a surplus of at least \$3.0 million instead of a \$2.0 million deficit. In addition, \$747,773 in excess surplus would be reported at fiscal year-end 2016 (see table below for our audit revisions).

General Fund	FY 2015			FY 2016		
	CAFR Reported	Audit Revision	Variance	CAFR Reported	Audit Revision	Variance
Ending Fund Balance	9,384,893	9,384,893		5,460,037	5,460,037	
Reserve for Excess Surplus-Designated for Subsequent Years	-	4,744,715	(4,744,715)	1,523,324	-	1,523,324
Reserve for Excess Surplus	1,523,324	-	1,523,324	-	747,773	(747,773)
Capital Reserve	-	-	-	-	-	-
Designated for Subsequent Year's Expenditures	651,077	651,077	-	-	-	-
Year-end Encumbrances	4,040,304	2,177,391	1,862,913	5,940,338	1,723,893	4,216,445
Unassigned Fund Balance	3,170,188	1,811,710	1,358,478	(2,003,625)	2,988,371	(4,991,996)

Accounts in Deficit

The district's actual fiscal year 2016 salaries were \$79.9 million and exceeded the final budget by over \$5 million. The original budget for total salaries would have been sufficient to provide for these salaries, however, over the course of the year, the district transferred nearly \$5.7 million from their salary accounts to other under-budgeted accounts including health benefits (\$2.5 million) and tuition to private and charter schools (\$1.4 million). The under-budgeting of these non-salary accounts further reduced fund balance as reported at the end of fiscal year 2016.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

CITY OF BAYONNE SCHOOL DISTRICT (continued)

Salaries of teachers grades 9-12 was the single over-expended account reported in the district's fiscal year 2016 CAFR, Budgetary Comparison Schedule – General Fund. However, salary expenditures were not accurately reflected in their respective CAFR accounts because employee salaries were not always charged to the proper budgetary account during payroll processing. Also, at the end of the fiscal year 2016, the district made salary adjustments and reclassified \$5.2 million from salary accounts in deficit to the grades 9-12 salary account. The reclassifications ranged from \$2,600 to \$1.17 million. As previously mentioned, the reason for these pre-reclassification deficits were the budget transfers to non-salary accounts.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

DEPARTMENT OF BANKING AND INSURANCE DIVISION OF INSURANCE UNCLAIMED LIFE INSURANCE BENEFITS

Observation

Insurance companies are currently being examined by several states for their use of the Social Security Administration's Death Master File (DMF) or other similar databases to identify deceased policyholders to stop annuity payments but not expand its use to include identifying unclaimed life insurance benefits. It is also a practice of insurance companies to terminate life insurance policies for non-payment once they stop receiving premiums from the deceased policyholders or once the accumulated cash value of the policy has been depleted, without attempting to contact the beneficiary.

Under current New Jersey Statutes and regulations, insurance companies are only obligated to pay life insurance death benefits after a claim has been submitted by a designated beneficiary along with the policyholder's proof of death. Individuals may be unaware that they are a beneficiary to an existing insurance policy. In the absence of a claim, the life insurance benefits are retained by the insurance companies until the policy matures, which occurs when the policyholder achieves the omega/limiting age currently set at 121 years. If neither the policyholder nor the beneficiary can be located, the insurance proceeds will then be classified as abandoned and typically in three to five years escheat to the respective states' Unclaimed Property Administrator (UPA).

State insurance regulators and multiple other government organizations across the country have launched joint examinations into the insurance industry's business practices. Based on these examinations many of the major insurance companies, although admitting no wrongdoing, have entered into settlement agreements. Companies that have signed settlement agreements are required to run comparisons between the DMF and all of their life insurance policies that were in-force at any time from January 1, 1992 to the present day. Insurance policies that had been terminated for non-payment after the policyholder's date of death have been restored, as well as any accumulated cash value associated with the policy. The companies covered under these agreements are working on providing the insurance proceeds to the beneficiary or if they cannot be located, the proceeds may be escheated to the appropriate state's UPA.

The National Conference of Insurance Legislators and the National Association of Insurance Commissioners have each developed and released model legislation to address these issues. In addition, as of July 2016, twenty-three states have enacted legislation and another six states have introduced bills requiring insurance companies to perform DMF comparisons on a routine basis for their annuity, life insurance, and retained asset accounts. After validating the DMF information, insurance companies are now required to search for beneficiaries to provide them with claim forms and instructions. New Jersey is among the six states that had legislation pending regarding this matter.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

DEPARTMENT OF BANKING AND INSURANCE DIVISION OF INSURANCE UNCLAIMED LIFE INSURANCE BENEFITS (continued)

Data obtained from the division provided the following information. In the past three years, the 364 life insurance companies operating in the state have collected an average of \$4.8 billion annually from our residents in individual life insurance premiums. New Jersey has participated in the multi-state examinations and has signed Regulatory Settlement Agreements (RSAs) with 77 companies, resulting in \$183 million in previously unclaimed life insurance benefits being disbursed to New Jersey beneficiaries. Agreements are currently pending with another 62 companies. These RSAs cover 70 percent of the average premiums collected in the state's market for individual life insurance.

While these RSAs address a significant portion of the individual life insurance market, these agreements can only be used to require a company to perform DMF comparisons on a routine basis and to subsequently search for beneficiaries if it sells annuities and is found to engage in the uneven use of the DMF. Absent defining laws and regulations, the remaining insurance companies may unfairly and knowingly retain unclaimed life insurance benefits due to beneficiaries.

The Department of Banking and Insurance should consider promulgating regulations under their current statutory authority or consider supporting necessary legislation which would require insurance companies to routinely identify unclaimed death benefits and absent notification of a claim by a claimant, locate beneficiaries, and make prompt payment. This would ensure that all insurance companies will provide life insurance benefits timely or identify these proceeds as unclaimed property.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

DEPARTMENT OF HUMAN SERVICES DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES MEDICAID PROVIDER NETWORKS

Background

Each Managed Care Organization (MCO) is contractually required to submit quarterly provider network files to the Department of Human Services, Division of Medical Assistance and Health Services (division). Section 4.8.1 of the New Jersey managed care contract states that MCOs “shall establish, maintain, and monitor at all times a network of appropriate providers that is supported by written agreements and is sufficient to provide adequate access to all services covered under this contract.” MCOs should ensure there are sufficient participating providers, including specialists, geographically accessible to beneficiaries. MCOs are required to submit quarterly, geographical accessibility (Geo Access) reports for each county, using Medicaid/NJ FamilyCare eligibility data files and the provider network files. These reports show the percentage of beneficiaries that have access to all providers at various distances. The MCOs also submit a spreadsheet of providers which supports the data used in creating the quarterly Geo Access reports. The division verifies the information on the Geo Access reports is supported by the data on the spreadsheets. The division also utilizes the MCOs’ quarterly certified provider network text file to run various reports which assist in monitoring and evaluating the services provided by the MCOs. The division utilizes and relies solely on MCO generated data to verify the accuracy of the Geo Access report as well as for monitoring and evaluating the services provided by the MCOs.

The Geo Access Report

Access to General Acute Care Hospital Services

The MCO contract requires that the MCO shall provide general acute care hospital services that are no farther than 15 miles or 30 minutes driving time, whichever is less, from 90 percent of its members within the county or adjacent counties. The contract also states that the MCOs should utilize the Department of Health’s website to verify hospitals in their network are licensed general acute care hospitals. We reviewed each of the five MCO networks as reported to the division in the Geo Access reports for the third quarter of calendar year 2014 through the third quarter of calendar year 2015, and found four of the five MCOs had a total of 41 facilities in 14 counties that were not general acute care hospitals. By including these facilities in their networks, it appeared the MCOs met contract requirements and beneficiaries had appropriate access to hospitals. We found when removed from the networks, 20 of the 41 facilities did impact beneficiaries’ required access standards to general acute care hospitals, six facilities may affect beneficiaries’ access, and 15 facilities did not affect beneficiaries’ access to general acute care hospitals. Examples of the facilities that were improperly included in the Geo Access as general acute care hospitals were a rehabilitation center, a behavioral health center, a psychiatric facility, a heart and lung center, and a special needs child care facility. The division relies solely on the Geo Access reports and the supporting data reported by the MCOs to determine whether access to general acute care hospital services is available to beneficiaries as

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

DEPARTMENT OF HUMAN SERVICES DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES MEDICAID PROVIDER NETWORKS (continued)

required by the contract. However, the Geo Access reports as well as the supporting documentation were at times inaccurate. The MCOs are not in compliance with the contract as they are not maintaining a network of general acute care hospital services that is sufficient to provide adequate access to services.

We also noted one MCO could not provide general acute care hospital services in Cumberland County to some of its members in accordance with the contract requirements because the MCO would not accept the only available hospital's proposed rates. In addition, another MCO could not provide services to most of its members in Hunterdon County because the only available hospital in the county refused to contract with the MCO. Furthermore, that same MCO could not provide services to some of its members in Warren County because one of the two hospitals in the county would not contract with the MCO. The MCOs must continually reach out to the hospitals in an attempt to negotiate a contract with them. Each MCO has demonstrated they have attempted to negotiate with the available hospitals. However, some hospitals will not contract with certain MCOs making it difficult for beneficiaries to gain access, while other hospitals have proposed rates the MCOs will not accept.

Access to Dental Services

Based on the information provided in the Geo Access reports for the quarter ending December 31, 2015, for the two largest MCOs, we selected 52 individual dental providers from a population of 357 providers who were listed at five or more locations throughout the state. The dentists tested were listed at a total of 795 locations. We attempted to contact every location where the dentists were listed to determine whether they were providing services at those locations. We found the dentists were not providing services at 731 of the 795 listed locations. Furthermore, from the population of the 357 providers who were assigned to five or more locations, we noted 94 (26.3%) dentists were assigned to 10 or more locations throughout the state. One dentist was reported in the Geo Access report as being located at 39 different addresses. Thirty-eight of the locations were long-term care facilities which do not offer dental services to the public. The dentist provided services at only one publicly accessible location. Although we selected the two largest MCOs for our testing, most of the exceptions were noted with one MCO rather than the other.

Our analysis of the Geo Access supporting documentation noted at least 15 dentists were located at 22 practices throughout the state. Many of the practices had the same dentists assigned to each of the locations. Fifteen of the 22 practices reported at least 60 dentists practicing there. However, when the practices were contacted we were told there were only, at most, eight dentists practicing at the locations. We tested to determine if all dentists assigned to the 22 practices were actually performing services at the locations as reported in the quarter ending December 31, 2015 Geo Access report. We found from a total of 1,396 unique combinations of dentists and locations tested, 1,216 (87%) unique combinations were

**ACCOMPLISHMENTS AND RESULTS
OTHER REPORTS OF INTEREST**

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
MEDICAID PROVIDER NETWORKS (continued)**

inaccurately reported in the Geo Access report because the dentists were not practicing at the locations. The division relies on the information provided in the MCOs' Geo Access reports to ensure beneficiaries have adequate access to care. However, these inaccuracies in the reports suggest beneficiaries may not have adequate access to dental services.

The contract states that 90 percent of beneficiaries must be within six miles of two primary care physicians and two primary care dentists in an urban setting and 85 percent of beneficiaries must be within 15 miles of two primary care physicians and two primary care dentists in a non-urban setting. We reviewed access to dental services for all five MCOs for the first quarter of 2014 through the third quarter of 2015 and determined four MCOs had beneficiary access below contract standards in Morris and/or Somerset counties, according to the Geo Access reports. There may be considerably more beneficiaries who do not have access to dental services within contract standards as we noted most dentists were not at their assigned locations as reported in the Geo Access reports.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT DIVISION OF WORKFORCE DEVELOPMENT

NJBUILD

Pursuant to N.J.S.A. 52:38-7 (NJBUILD), any state or local public body, upon entering into any public works contract in excess of \$1 million funded, in whole or in part, by funds of the public body, shall transfer an amount equal to one half of one percent (0.5 percent) of the contract amount to the Department of Labor and Workforce Development (department). The department is required to use the transferred funds to provide outreach and training programs for minority group members and women in construction trade occupations.

Since the inception of the NJBUILD statute in 2009, the Division of Workforce Development (division) has collected \$31 million in receipts. The division has not been able to utilize NJBUILD funds as intended by the legislature, and the excess funds have frequently been redirected to the unrestricted balance of the General Fund. As of December 31, 2016, a total of \$19.9 million, or 64 percent of NJBUILD revenues, had been redirected.

There are several possible issues stemming from this transfer of funds.

- In 2004, the New Jersey Supreme Court ruled it unconstitutional to use the proceeds of general obligation bonds to balance the budget. In July and September 2016, the division received NJBUILD revenues totaling \$525,600 from two contracts partially funded by New Jersey general obligation bond proceeds. If these funds are redirected, the state may be at risk of violating the New Jersey Constitution.
- In fiscal year 2016, the division received \$2.1 million of NJBUILD revenues (75 percent of the total for the year) from projects funded by New Jersey Turnpike Authority (authority) revenue bonds. Pursuant to Section 17(a) of the Securities Act of 1933, it is unlawful for bond issuing organizations to mislead investors about the intended use of bond proceeds. When bond proceeds become unrestricted within the General Fund, the use of funds may differ from existing bond disclosures and may be misleading to investors.
- Pursuant to Section 103 of the Internal Revenue Code of 1986 (Code), interest earned on authority bonds by investors is excluded from federal income tax. The authority made a commitment to investors to maintain the tax exempt status of the bonds through compliance with provisions of the Code. Noncompliance with the provisions may cause investors to pay income tax on interest retroactive to the date of issuance of the bonds. By allowing proceeds of bonds to become unrestricted within the General Fund, the division is limiting the bond issuer's control over the use of these funds, thereby inhibiting their ability to protect the interest of investors and to raise additional funds.

Pursuant to N.J.S.A. 52:40-6 et seq., the Division of Public Contracts Equal Employment Opportunity Compliance, which was transferred to the department in 2012, is responsible for monitoring and reporting the collection of NJBUILD funds. The department does not have staff

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

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

assigned to monitor public contracts for NJBUILD contributions. Furthermore, N.J.S.A. 52:38-7 requires an annual report be published for NJBUILD detailing all public works contracts subject to this law, the funds collected, training programs funded, and performance results for those training programs. We noted the last report was issued March 30, 2011 for the period of September 1, 2009 through December 15, 2010.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

INFORMATION TECHNOLOGY GOVERNANCE

Background

Information technology (IT) governance is defined as the processes that ensure the effective and efficient use of IT in enabling an organization to achieve its goals. Governance of any type is rooted in the concept that all stakeholders' needs will be addressed to the extent possible, that responsibility for various measurements and results are assigned to parties having the authority and skill to handle the task, and that support for the governance process is obtained from all participants. The concept of IT governance is tied closely with overall organizational governance because information technology cannot effectively and efficiently be utilized to achieve an organization's goals if those goals are not properly defined. For example, the strategic planning process must take place at an organizational business level before the results can be used to develop an IT strategic plan in support of the IT governance process, since the IT strategic plan should be directly related to the business initiatives identified by the organizational business strategic plan.

In 2007, the legislature passed the Office of Information Technology Reorganization Act, which established the Office of Information Technology (OIT) as in, but not of, the Department of the Treasury. Notwithstanding this designation, the OIT "shall be independent of, any supervision or control by the State Treasurer, or the department, or by any division, board, office, or other officer thereof". This act also stated that the OIT shall be directed by the Chief Technology Officer (CTO), who will report directly to the Governor and, under the direction of the CTO, "shall be responsible 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." In addition, the CTO has the authority to "coordinate and conduct all information technology operations in the Executive Branch of State Government, including agency technology operations". The act also directs all executive branch agencies and departments to cooperate fully with the OIT and the CTO to implement the provisions of the act to "ensure effective use of information technology within the Executive Branch of State Government."

After this legislation passed, we have conducted multiple audits of the OIT and executive branch IT operations. Repeatedly, we have referenced the Information Technology Reorganization Act in our findings and recommendations because of the responsibility for statewide IT operations that it assigns to the OIT. Previous OIT management disagreed with our interpretation of the act, and stated that the ultimate responsibility for items such as security, project management, and contingency planning lies with the individual agencies. The OIT established policies that reflected this position. In contrast, since the appointment of the new CTO and the restructuring of the OIT last year, there has been a noticeable effort to use the authority granted in the act to establish areas of OIT statewide control. Subsequent to our audit period, the Governor signed Executive Order No. 225 which, based on the recommendations of the CTO, authorizes the CTO to identify, consolidate, and centralize IT infrastructure assets and operations. The CTO is also specifically directed to decentralize the application development of

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

INFORMATION TECHNOLOGY GOVERNANCE (continued)

all “agency-specific applications that do not serve shared business requirements across the Executive Branch.”

Defining and implementing IT governance measures would allow the OIT to better fulfill its charge of coordinating and conducting all IT operations in the executive branch. Because of the close ties between IT governance and overall business governance, the OIT faces challenges when addressing executive branch IT governance. Individual agencies are responsible for fulfilling their statutory missions to the citizens of the state, but the OIT is not directly responsible for those same missions. Therefore, it is difficult for the OIT to adopt an IT governance framework for the executive branch because they cannot connect that framework to all of the varied business missions of the agencies. The OIT is aware of this, and in our discussions with its management, they have stated that the OIT must create a hybrid governance framework that allows individual agencies to use IT to meet their business missions, while allowing the OIT to define governance requirements and to assign responsibility for those requirements. In summary, the OIT must create a framework that allows the agencies and departments the autonomy to fulfill their statutory missions while also providing structure, guidance, and support from an enterprise perspective.

We focused our audit on compliance with the Information Technology Reorganization Act’s requirement that the OIT coordinate and conduct all IT operations in the executive branch. This compliance was assessed within the current organizational model used by the executive branch. We did not evaluate whether this particular model was the most efficient or effective for the executive branch, but rather we worked within the existing structure to make recommendations.

Information Technology Governance Framework

From our discussions with management at both the Office of Information Technology (OIT) and executive branch agency levels, we found the following conditions related to IT governance statewide.

- At the beginning of the audit period, the OIT did not have an executive branch IT governance framework. During the audit period, one had been developed that defines the governance decision-making hierarchy that the OIT is proposing; however, this document is still in draft form. This framework features senior-level business and technology experts working together at each agency. The framework will be connected to the Governor’s Cabinet; however, the Cabinet will not make decisions unless absolutely necessary. Decisions will be made at the lowest level appropriate for the specific issue. This framework defines general decision-making responsibilities at the agency level, but the agencies will have to assign these responsibilities to specific staff members based on the internal structure of their agency.

ACCOMPLISHMENTS AND RESULTS OTHER REPORTS OF INTEREST

INFORMATION TECHNOLOGY GOVERNANCE (continued)

- Discussions with executive branch agency IT personnel, as well as requests for documented IT governance frameworks at the agency level, found that 12 of the 14 agencies we surveyed have not, in the absence of an enterprise IT governance framework, adopted a framework of their own. Of the two that have adopted a framework, only one has instituted any type of compliance monitoring at the agency level.
- Discussions with executive branch IT personnel found that 11 of the 14 agencies do not have a formal unit tasked with implementing IT governance that includes the appropriate personnel. The task of IT governance should not fall solely on IT management, but should include key business leaders as well.

Industry standards recommend that organizations have an IT governance structure guiding them to ensure IT resources are used the most efficient and effective way to support the accomplishment of the organization's mission and objectives. Based on our discussions with OIT management, prior to the restructuring in June 2016 the previous OIT management had established a division responsible for IT governance. Although this division did conduct some statewide strategic planning and worked with agency IT management to identify common issues, they did not establish an IT governance framework, nor provide guidance on implementing IT governance at the agency level. With this lack of emphasis and guidance on governance, few agencies pursued developing and adopting a governance framework on their own.

Although agencies may be very adept at managing the IT resources they are responsible for in order to achieve strategic goals, the goal of IT governance is support for the long-term business objectives of the organization. The lack of a formally adopted IT governance framework can contribute to the inefficient and/or ineffective use of IT resources to meet those objectives. In order to implement such a framework, both the OIT and state agencies need a properly staffed unit, including both IT and business leaders, with responsibility for the task. In addition, monitoring at either the OIT or agency level is necessary to assess compliance with the adopted framework.

**OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2017**

<u>REPORT</u>	<u>TYPES OF FINDINGS</u>			<u>NONE</u>
	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY/ EFFICIENCY</u>	
City of Bayonne School District		X		
Department of Banking and Insurance				
Division of Insurance				
Unclaimed Life Insurance Benefits			X	
Department of Community Affairs				
Section 8 Housing Program				
Financial Data Schedules				X
Department of Human Services				
Division of Medical Assistance and Health Services				
Medicaid Provider Networks	X	X		
Transportation Broker Services Contract – Capitation Rates		X	X	
Division of Mental Health and Addiction Services				
Integrated Case Management Services, Program for Assertive Community Treatment, and Intensive Outpatient Treatment and Support Services	X	X		
Licensed Residential Programs				
Serving Individuals with Developmental Disabilities	X	X	X	
Department of Labor and Workforce Development				
Division of Vocational Rehabilitation Services	X	X		
Division of Workplace Development	X	X		
Department of Military and Veterans' Affairs	X	X	X	
Department of the Treasury				
Division of Administration				
Transportation Services				
State Central Motor Pool	X	X	X	
Division of Purchase and Property				
Temporary Staffing Services Contract			X	
Office of Management and Budget				
Statewide Cost Allocation Plan			X	
Information Technology Governance	X	X	X	
Judiciary				
Administrative Office of the Courts				
Judiciary Bail Fund	X	X		
Kean University	X	X		

**OFFICE OF LEGISLATIVE SERVICES
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<u>REPORT</u>	<u>TYPES OF FINDINGS</u>			
	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY/ EFFICIENCY</u>	<u>NONE</u>
New Jersey Economic Development Authority				
Selected Incentive Programs	X	X		
Pinelands Commission				
Fiscal Year 2015		X	Opinion Report	
Fiscal Year 2016		X	Opinion Report	
South Jersey Port Corporation	X			
State of New Jersey				
Comprehensive Annual Financial Report				
For the Fiscal Year Ended June 30, 2016			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 <i>Government Auditing Standards</i>				X