

**New Jersey State 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, 2009

**Stephen M. Eells
State Auditor**

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The Honorable Chris Christie
Governor of New Jersey

The Honorable Stephen M. Sweeney
President of the Senate

The Honorable Sheila Y. Oliver
Speaker of the General Assembly

Mr. Albert Porroni
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, 2009 and have issued our report thereon dated March 1, 2010. In connection with that audit, we tested internal controls and compliance to laws and regulations. The results of our tests are contained 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.

Stephen M. Eells
State Auditor
April 27, 2010

**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

We have audited 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, 2009, which collectively comprise the state's basic financial statements and have issued our report thereon dated March 1, 2010. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with 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. Other auditors 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 two discretely

presented component units, the New Jersey Sports and Exposition Authority and the Casino Reinvestment Development Fund, audited by other auditors were not performed in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the State of New Jersey's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of New Jersey's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses (2009-1) to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the accompanying schedule of findings and responses is a material weakness.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of New Jersey's financial statements are free of 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*.

The State of New Jersey's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the State of New Jersey's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the State of New Jersey, the legislature, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Stephen M. Eells
State Auditor
March 1, 2010

State of New Jersey
Schedule of Findings and Responses
March 1, 2010

Finding: 2009-1

Financial Statement Reporting

The Department of the Treasury's Office of Management and Budget - Financial Reporting (OMBFR) is responsible for preparing the financial statements and the notes to the financial statements for inclusion in the Comprehensive Annual Financial Report (CAFR). The majority of the fund financial statements are based on transactions processed through the New Jersey Comprehensive Financial System (NJCFSS) and adjustments prepared by the OMBFR accountants through the use of journal vouchers. The NJCFSS data is uploaded into the Clarity System application which creates the final financial statements. Governmental Accounting Standards Board Statement No. 34 data, component unit statements, and off-line funds audited by independent certified public accounting firms are entered directly through journal entries into the Clarity System application by the OMBFR for inclusion in the CAFR. The OMBFR may also make adjustments to financial statements through entries in Clarity. The management's discussion and analysis, notes to the financial statements, statistical section, and certain other information are included in the CAFR through Clarity.

The following internal control over financial reporting weaknesses were noted during our current audit.

- Audit adjustments were proposed to correct errors in two special revenue funds. One adjustment was made to accrue revenue of \$34.5 million in the Tobacco Settlement Fund. Another proposed adjustment of \$36 million was not made to the Garden State Green Acres Preservation Fund to reclassify as "Reserved for: Other" the portion of fund balance that represents loans receivable. The "Unreserved: Designated – continuing appropriations" fund balance classification is therefore overstated. As noted in previous reports, the OMBFR does not have a formalized procedure to analytically review financial statement balances from year-to-year for the CAFR funds and the discretely presented component units. An analytical procedure comparing year-to-year balances may have detected the misstatements in these two funds.
- Audit adjustments totaling \$21 million were made to decrease tax revenue accruals in the General Fund due to calculation errors by Treasury's Office of Revenue and Economic Analysis (OREA). While OMBFR performed an analytical review of the accruals and returned them to OREA for further analysis, the recalculated accruals still contained errors resulting in the audit adjustments.

In our prior report dated February 29, 2008, we recommended OMBFR formalize procedures to analytically review financial statement amounts to lessen the risk that material incorrect journal

voucher activity may occur and not be detected in a timely manner. In our prior report dated April 30, 2009, we recommended this procedure should be extended to the component unit statements (2008-1).

Recommendation

We repeat our previous recommendations that the OMBFR formalize procedures to analytically review financial statement amounts for all funds to lessen the risk that a material error due to omission or incorrect journal voucher activity may occur and not be detected in a timely manner. We further recommend a more detailed review of OREA's tax accrual calculations be completed prior to submission to OMBFR.



State of New Jersey
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TRENTON, NJ 08625-002

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

April 22, 2010

Mr. Stephen M. Eells
State Auditor
Office of Legislative Services
Office of the State Auditor
PO Box 067
Trenton, New Jersey 08625-0067

RE: Departmental Audit Responses – Department of the Treasury
Office of Management and Budget
Comprehensive Annual Financial Report

Dear Mr. Eells:

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

Financial Statement Reporting

The following internal control over financial reporting weaknesses were noted during our current audit.

Finding

Audit adjustments were proposed to correct errors in two special revenue funds. One adjustment was made to accrue revenue of \$34.5 million in the Tobacco Settlement Fund. Another proposed adjustment of \$36 million was not made to the Garden State Green Acres Preservation Fund to reclassify as "Reserved for: Other" the portion of the fund balance that represents loans receivable. The "Unreserved: Designated – continuing appropriations" fund balance classification is therefore overstated. As noted in previous reports, the Office of Management and Budget, Financial Reporting (OMBFR) does not have a formalized procedure to analytically review financial statement balances from year-to-year for the CAFR funds and the discretely presented component units. An analytical procedure comparing year-to-year balances may have detected the misstatements in these two funds.

Mr. Stephen M. Eells
April 22, 2010
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Response

OMBFR has a formalized procedure to analytically review financial statements for funds and component units. In Fiscal Year 2009, OMBFR installed a new software reporting application, Clarity. Due to time constraints and in an attempt to save money, Fiscal Year 2008 data was not input into Clarity. Therefore, comparative statements were not available. In Fiscal Year 2010, Clarity will produce comparative statements that will allow for a more formal analytical review process.

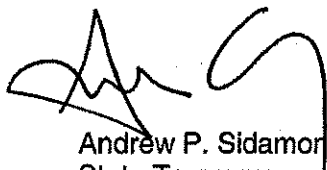
Finding

Audit adjustments totaling \$21 million were made to decrease tax revenue accruals in the General Fund due to calculation errors by Treasury's Office of Revenue and Economic Analysis (OREA). While OMBFR performed an analytical review of the accruals and returned them to OREA for further analysis, the recalculated accruals still contained errors resulting in the audit adjustments. In our prior report dated February 29, 2008, we recommended OMBFR formalize procedures to analytically review financial statement amounts to lessen the risk that material incorrect journal voucher activity may occur and not be detected in a timely manner. In our prior report dated April 30, 2009 we recommended this procedure should be extended to the component unit statements (2008-1).

Response

OREA will review the current process and make the necessary changes to ensure that year-end tax accruals are subject to a detail review prior to submission to OMBFR.

Sincerely,



Andrew P. Sidamor-Eristoff
State Treasurer

nm

c: Charlene M. Holzbaur
Kathy A. Steepy