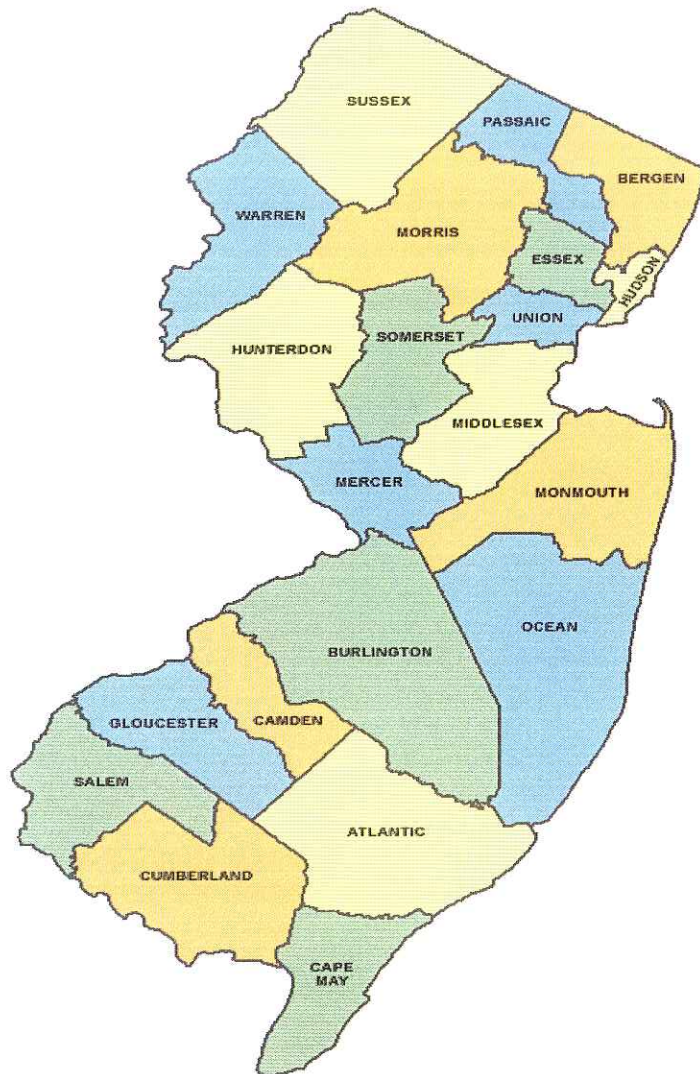

Annual Report of the New Jersey Office of Legislative Services Office of the State Auditor

For the Calendar Year Ended December 31, 2010



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Stephen M. Eells
State Auditor

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The Honorable Members of the Senate and General Assembly

Mr. Albert Porroni, 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 2010. 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 31 reports during 2010, which identified \$38.2 million in potential cost savings/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 for public funds and to improve the operations of state 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 best 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 that we audit. We are committed to providing high quality audit reports. You may be assured that we will continue our efforts to improve state government accountability to the Legislature through an effective and constructive audit process.

Stephen M. Eells
State Auditor
March 17, 2011

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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 have been 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 Legislature, the Governor, 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 compliance with its recommendations. In addition, at the request of the legislative leadership or the Legislative Services Commission, the State Auditor conducts studies on the operation of state and state-supported agencies with respect to their economy, 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 which can be used to improve the operations and accountability of public entities.

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.

The State Auditor and his staff will perform all work in a professional manner utilizing appropriate standards.

ACCOMPLISHMENTS

During calendar year 2010 we identified \$38.2 million in new cost savings or revenue enhancements. The schedule of cost savings is presented on page 3. The office provided training in the area of fraud and through audio conferences in various topics for no charge to over 160 participants from other governmental agencies. In addition, our compliance review on findings related to audit reports issued during the fiscal year ended June 30, 2009 disclosed that 84 percent of the recommendations have been complied with or management has taken steps to achieve compliance.

**OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF COST SAVINGS AND REVENUE ENHANCEMENTS
REPORTS ISSUED DURING CALENDAR YEAR 2010**

<u>REPORT</u>	<u>COST SAVINGS/ REVENUE ENHANCEMENTS</u> (In Thousands)
Department of Community Affairs	
American Recovery and Reinvestment Act	
Weatherization Assistance Program	
Weatherization Agencies	\$138
Urban Enterprise Zone Program	20,000
Department of Health and Senior Services	
Pharmaceutical Assistance to the Aged and Disabled	
Senior Gold, Lifeline, and Hearing Aid Assistance	
To the Aged and Disabled Programs	1,993
Department of Human Services	
Division of Developmental Disabilities	
Vineland Developmental Center	5
Department of Law and Public Safety	
Attorney General's Law Enforcement Forfeiture Account	6,200
Division of Criminal Justice and Office of the	
State Medical Examiner	469
Department of the Treasury	
Division of Taxation	
Rebate Eligibility	4,277
Judiciary	
Administrative Office of the Courts	
Office of Management and Administrative Services	144
Town of Phillipsburg School District	3,990
Township of Lakewood School District	392
Trenton Board of Education	<u>573</u>
<i>Total Cost Savings and Revenue Enhancements</i>	<u><u>\$38,181</u></u>

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 opinion on the state's Comprehensive Annual Financial Report (CAFR) which is published by the Department of the Treasury. The CAFR engagement includes the audit of 199 funds and component units which had a total asset value of \$158 billion at June 30, 2010 based on full accrual accounting. Three other financial audits were issued in calendar year 2010.

Agency 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 performed 20 of these audits in calendar year 2010. These audits encompassed \$6.5 billion and \$1.2 billion of expenditures and revenues, respectively.

Information Technology 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 2010 we reported on the Office of Information Technology Data Center and the New Jersey Judiciary Information Technology.

The office has an integrated IT audit effort, where IT auditors are assigned to other types of audits and are responsible for the review of IT controls that are applicable to the scope of those audits. This allows for more frequent reviews of IT systems. Audit hours relating to this effort are reported in the other types of audits performed.

School District Audits

N.J.S.A. 18A:7A-57 authorizes the Office of the State Auditor to conduct a forensic audit of the fiscal operations of any school district that has a year-end general fund deficit and meets one other criteria of this statute. We audited two such school districts in calendar year 2010. We also audited the Elizabeth Board of Education and the Trenton Board of Education.

AUDIT REPORTS

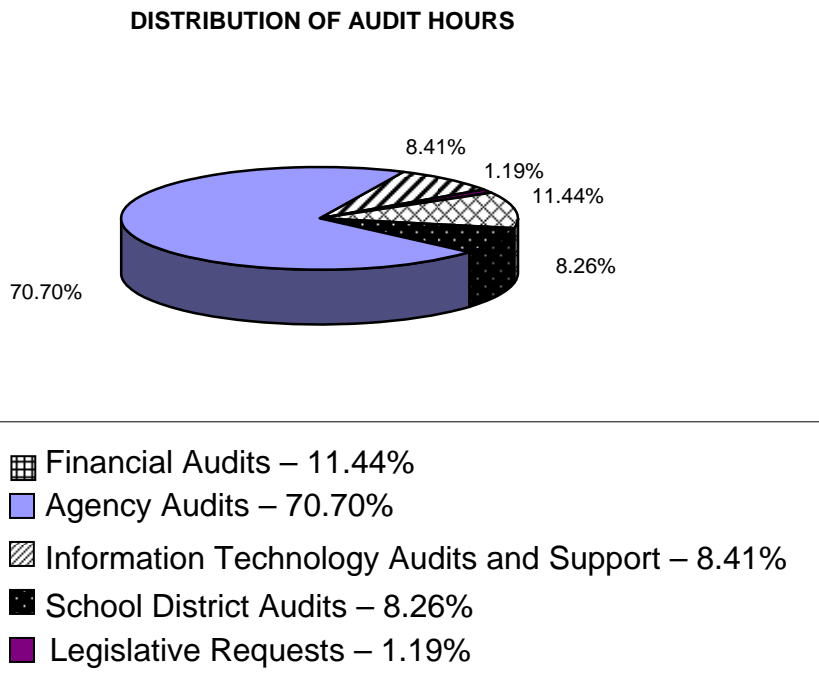
Legislative Requests

From time to time the Legislative Services Commission and Legislative Leadership requests the State Auditor to conduct special projects of the fiscal practices and procedures of the major departments and agencies of the State, and to report findings to the Commission. During calendar year 2010 we reported on the New Jersey Sports and Exposition Authority.

AUDIT REPORTS

DISTRIBUTION OF AUDIT HOURS

The distribution of audit hours used in performing audits during calendar year 2010 is depicted on the following chart.



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 since 1996 are available on the Internet through the New Jersey Legislature's Home Page.

Reports are statutorily required to be sent to:

- the Governor,
- the President of the Senate,
- the Speaker of the General Assembly, and
- the Executive Director of the Office of Legislative Services.

In addition, copies of reports are routinely sent to:

- the chairs of the pertinent Senate and the General Assembly committees,
- the Executive Directors of partisan staff,
- the management of the audited entity,
- the State Treasurer, and
- the State Library.

Finally, reports are placed on the Internet at:

<http://www.njleg.state.nj.us/legislativepub/auditreports.asp>

ORGANIZATION

HUMAN RESOURCES

The Office of the State Auditor is one of eight units within the Office of Legislative Services. The State Auditor's office is comprised of 91 professional and five 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. Fifty-three staff members, 60 percent of the professional staff, 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 participated as officers, board members, and committee members of local, state, and national accounting and auditing organizations, including the Association of Government Accountants, Institute of Internal Auditors, National State Auditors Association, and New York/New Jersey Intergovernmental Audit Forum. The office also participates in the national peer review program under the auspices of the National State Auditors Association.

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 the field staff.

The office maintains seven active committees staffed by individuals in various titles to provide guidance in the areas of information technology, IT information, personnel, planning, policy, sampling, and training. An intranet site is also maintained that contains staff information, budget and appropriation information, and commonly used accounting and auditing research and reference internet sites which 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 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 maintenance of the audit working papers and the office library, purchasing and maintaining office supplies, and other general administrative functions.

**OFFICE OF THE STATE AUDITOR
STAFF ROSTER
As of December 31, 2010**

STATE AUDITOR

Stephen M. Eells, CPA
Evelyn T. Richardson, Administrative Assistant

ASSISTANT STATE AUDITOR

John Termyna, CPA
Jean Horner, Secretary

ASSISTANT STATE AUDITOR

Thomas R. Meseroll, CPA, CGFM
Robyn Boyer, Secretary

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Joseph O. Ettenger, CFE

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David J. Kaschak, CPA, CGFM
J. Robert Malone, MBA

Richard Nicomini, CPA
Gregory Pica, CPA
Rose M. Todaro, CIA, CGAP, CFE, CGFM

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Ernest W. Barany, CPA, CEH, CPT
Paul R. Baron, CPA
Kenyona Booker, CGAP
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Cynthia Burdalski
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Jonathan Trauger, MBA, CPA
Shrushi Trivedi
Kurt Zadworney

ADMINISTRATIVE STAFF

Pamela J. Puca, Principal Audit Processor
Anthony Arena, Support Services Assistant

Certification Legend:

CEH – Certified Ethical Hacker
CFE – Certified Fraud Examiner
CGAP – Certified Government Auditing Professional
CGFM – Certified Government Financial Manager
CIA – Certified Internal Auditor
CISA – Certified Information Systems Auditor
CMFO – Certified Municipal Finance Officer
CPA – Certified Public Accountant
CPT – Certified Penetration Tester
MAccy – Master of Accountancy
MBA – Master of Business Administration
MS – Master of Science
PSA – Public School Accountant

**ACCOMPLISHMENTS
AND RESULTS**

ACCOMPLISHMENTS AND RESULTS

SUMMARY

This section highlights five of the more significant audits issued during the past year that individually contained cost savings/revenue enhancements greater than \$1.0 million and collectively totaled \$36.5 million. Information on these reports is presented on pages 14 through 26. The office issued six other reports with individual cost savings totaling \$1.7 million. This section also contains the significant findings from nine audits on pages 28 through 65 which address issues regarding information technology, school districts, the weatherization assistance program, and other matters.

All reports issued in calendar year 2010 are identified on a schedule on pages 66 to 67 and are available for review on our internet website.

**SIGNIFICANT
COST SAVINGS/REVENUE
ENHANCEMENTS**

**DEPARTMENT OF COMMUNITY AFFAIRS
URBAN ENTERPRISE ZONE PROGRAM**

Audit Observations

As part of our objectives for the audit of the Department of Community Affairs, Urban Enterprise Zone Program, we gave consideration to the program status after 26 years and how it can be improved. Within one year, five of the original enterprise zone municipalities will enter their final five-year term. New Jersey is not alone in the utilization of urban enterprise zones; however, the designation of sales tax to fund zone projects is unique to this state. While this funding mechanism has resulted in many positive changes within the zones, we make the following observations and suggestions.

- On average, the state forgoes over \$100 million annually through the reduced sales and use tax collections. During these tight budgetary times, we question if this is a benefit the state can continue to fund. We believe that the legislature should consider amending the program to remove the reduced tax provision while permitting zones to continue to receive a portion of sales tax receipts to fund projects.
- Since the zones' source of funding is through the allocation of sales tax collections, many of the zones have sought to concentrate on developing properties to support retail endeavors. Though the retail sector is an important element in the economic revival of any zone, the Urban Enterprise Zone Authority (authority) should consider the need for a balance between retail, professional services, and manufacturing in its approval of development plans.
- We observed that there is a wide disparity in the amount of funds available through reduced sales tax receipts between zones. The authority should consider requesting legislation capping the annual amount credited to any single zone and determining an alternative method to fund worthwhile projects in those zones with lesser receipts.
- This program was enacted as a temporary benefit for distressed municipalities to develop projects beneficial to the local economy. No zones have ever been removed from the program and none have ever withdrawn. More rigorous legislative standards for the granting of extended terms to existing zones should be developed. Currently, the only criteria for granting zone extensions are the local unemployment rate exceeding the state's average, or the average number of unemployed persons in a zone exceeding 2000.

**DEPARTMENT OF COMMUNITY AFFAIRS
URBAN ENTERPRISE ZONE PROGRAM**

In fiscal year 2003 the legislature appropriated an amount from the Enterprise Zone Assistance Fund for use as state revenue. The zones impacted by this action received an additional percentage of revenue from future zone sales tax receipts between fiscal years 2004 and 2009. We were informed that some zones received credits exceeding the amount originally appropriated from their Enterprise Zone Assistance Funds account due to a lack of monitoring. The excess credits ranged from \$100,000 to over \$5 million with the total excess amounting to \$20 million. This is separate from the \$40 million issue involving the percentage of sales tax receipts that zones were entitled to as a result of the sales tax rate increase from 6 percent to 7 percent. These excess credits have not been recovered from the local zones, nor have the zones been informed of their existence. The zones should be informed of the excess credits they received and procedures should be adopted to move funds from the Enterprise Zone Assistance Funds to the state's General Fund. According to Department of the Treasury personnel, these excess credits are to be recovered as part of the fiscal year 2011 budget.

**DEPARTMENT OF HEALTH AND SENIOR SERVICES
PHARMACEUTICAL ASSISTANCE TO THE AGED AND DISABLED,
SENIOR GOLD, LIFELINE, AND HEARING AID ASSISTANCE TO THE AGED AND
DISABLED PROGRAMS**

Tenant Lifeline Assistance Program

The intent of the Tenant Lifeline Assistance Program, according to N.J.A.C. 8:83A-1.1 et seq., is to afford assistance to residents who, by virtue of their level of income and age would be eligible for the Lifeline Credit Program, but because their utility costs are included as part of the rental, they do not receive an individual utility bill. A tenant is defined as an individual renting or leasing real property as their principal residence. The application process requires that the tenant submit the name and address of their landlord, which is reviewed by the Department of Health and Senior Services, Division of Senior Benefits and Utilization Management (division) in determining eligibility for the \$225 annual assistance. The annual rental payments and lease agreement are not part of the application process.

There were 31,000 beneficiaries who received \$7 million in program benefits during fiscal year 2009. We statistically sampled 47 applications and found that 30 tenants had identified the landlord as having the same address and 16 of these tenants either stated that they were living with a relative or they had the same last name as the landlord. These situations may not represent a tenant/landlord relationship as defined by the New Jersey Administrative Code and would require additional information to substantiate a rental. Based upon our test, the population of tenant beneficiaries who may not have a documented tenant/landlord relationship is at least 6,996 and are receiving \$1.6 million in assistance payments.

Prescription Claims

The Pharmaceutical Assistance to the Aged and Disabled (PAAD) Program provides prescription drug benefits to its beneficiaries, as payer of last resort. PAAD beneficiaries are required to be enrolled with a Medicare Part D provider, if eligible.

For calendar year 2009, the standard Medicare Part D benefit required a \$295 deductible. Once the deductible is satisfied, the Medicare Part D provider is responsible for 75 percent of the drug cost and the beneficiary for 25 percent until the total drug cost reaches \$2,700. The beneficiary is responsible for the entire drug cost between \$2,701 and \$6,154. This is commonly known as the “donut hole”. Drug costs beyond this limit will be paid by Medicare, the Part D provider, and the beneficiary. Our audit found that only some Part D providers grant the division access to their claim details.

PAAD provides assistance so that the beneficiaries pay no more than the \$6 for generic and \$7 for brand name covered drugs. During calendar year 2009 there were 142,700 PAAD beneficiaries covered by Part D plans. Prescription claims paid by PAAD for these beneficiaries were \$182 million.

**DEPARTMENT OF HEALTH AND SENIOR SERVICES
PHARMACEUTICAL ASSISTANCE TO THE AGED AND DISABLED,
SENIOR GOLD, LIFELINE, AND HEARING AID ASSISTANCE TO THE AGED AND
DISABLED PROGRAMS**

We tested 16 beneficiaries who had claims averaging \$30,872 for calendar year 2009. We found that PAAD had overpaid \$392,580 on behalf of 14 of these beneficiaries. We noted that total out-of-pocket expenses are not being accumulated accurately by the Centers for Medicare and Medicaid Services (CMS) and Part D providers, which results in beneficiaries remaining in the “donut hole” longer and PAAD paying for claims that should have been the responsibility of the Part D providers. The division, CMS, and Part D providers are aware of this condition and are working to resolve the problem. Some Part D providers review beneficiary claims and refund PAAD for any identified overpayments. For calendar year 2009 the refunds totaled \$3.3 million; however, Part D providers do not provide details of the claim payments and refunds. As a result, the division does not know if the refunds are correct. As of August 13, 2010 the division had recovered \$262,850 of the \$392,580 tested overpayments from one of the Part D providers.

**DEPARTMENT OF LAW AND PUBLIC SAFETY
ATTORNEY GENERAL'S LAW ENFORCEMENT FORFEITURE ACCOUNT**

Forfeiture Program Financial Activity

The financial accounting over seized and forfeited funds is an inefficient and convoluted process that needs to be enhanced. Funds seized by state law enforcement agencies are first deposited and transferred into two temporary clearing accounts, and then transferred to separate cash management accounts (CMA) where they accumulate interest. The Department of Law and Public Safety (department) has been maintaining its subsidiary recordkeeping for these funds by utilizing various electronic spreadsheets. The disposition of the principal amounts seized when a case is closed include returning it to the defendant, sharing it with other law enforcement agencies, or depositing forfeited proceeds into the Attorney General's Law Enforcement Forfeiture Account (AGLEFA). Interest earnings on all CMAs are retained by the state and are transferred into the Asset Maintenance Account (AMA). The AGLEFA, AMA, and six federal accounts partially fund various law enforcement programs including witness protection, confidential investigations, and enhancing the computer-aided dispatching system. An additional program supported by five percent of forfeited funds is the Hepatitis Inoculation Program administered by the Department of Health and Senior Services. Our review of these accounts and the state's General Fund accounts revealed the following discrepancies and internal control weaknesses.

- As of January 31, 2010, seized funds were \$23 million, and federal forfeited and state forfeited fund balances available for spending were \$2.4 million and \$3.8 million, respectively (see following chart). The reporting of these funds is not financially transparent because they are recorded in the state's Investment Trust Fund which consolidates investment pools from municipalities, counties, and public authorities. Furthermore, the aggregate seized and forfeited balances are not included in the semi-annual disclosure reports to the State Legislature and the Department of the Treasury; only financial activity for the period is required. Disclosure of the additional balances would enhance transparency.

<u>Cash Balances</u>		
	<u>Number of CMAs</u>	<u>January 31, 2010 Balances</u>
Forfeited Funds:		
State	6	\$3.8 million
Federal	6	\$2.4 million
Seized Funds- Trust Liability	270	\$23.1 million
Total	282	\$29.3 million

**DEPARTMENT OF LAW AND PUBLIC SAFETY
ATTORNEY GENERAL'S LAW ENFORCEMENT FORFEITURE ACCOUNT**

- Forfeited revenues and interest income are not recognized properly in the state's accounting system in accordance with generally accepted accounting principles. Per Statement No. 33 of the Government Accounting Standards Board, revenue should be recognized at the time of obtaining forfeiture judgment. Forfeited funds and interest are deposited as revenue when law enforcement spending projects are approved by the Attorney General instead of recognizing revenue when the seized funds are forfeited per a court judgment. Our prior audit report cited \$3 million in prior fiscal years' revenue was deferred and not recognized timely in the state's financial statements. As of January 31, 2010, \$6.2 million has not been recognized as revenue. We also noted that from January 2009 to November 2009, three transactions totaling \$260,000 were improperly created as revenue refunds and deposited back into the AGLLEFA account.
- The department does not reconcile internal transfers between CMAs or CMA balances to open cases. We prepared our own reconciliations of various CMA accounts and discovered a surplus of \$184,000. This is made up of a surplus of seized funds totaling \$107,000 in the two clearing bank accounts and a surplus of \$77,000 in the restitution account. Except for in-transit items, all clearing accounts should have zero balances. The restitution account is a holding account where deposits are resubmitted to victims or claimants. The restitution account is no longer active. The last financial transaction was March 2000.
- There are no follow-up procedures between assigned attorneys and fiscal personnel to resolve old outstanding criminal cases with seized funds. Fourteen of the twenty-five CMA cases tested did not have court documentation on file to determine the proper disposition of these dormant funds. We also calculated \$140,000 in accumulated interest income that was not transferred to the Asset Maintenance Account. In addition, the general small money account has approximately 150 seized cases totaling \$80,000 that are over ten years old and have not been resolved. This account was recently reconciled for the first time by the department.
- Old seized cases, where the claimants could not be found, have not been escheated or reported to the State Treasury annually as required by state regulations. In January 2010, the department, for the first time, escheated \$36,000 representing 15 cases.

**DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION
REBATE ELIGIBILITY**

Verification of PTR Eligibility – Background

For tax year 2007 the Property Tax Freeze Program (PTR) reimbursed the difference between the amount of property taxes that were paid in a taxpayer's base year and the amount of property taxes that were paid in 2007. To qualify for the PTR, a taxpayer must have been age 65 or older or receiving federal social security disability benefits as of December 31, 2006. The taxpayer's total income must have been less than \$60,000. Legislative changes have increased the income limits in tax years 2008 and 2009 to \$70,000 and \$80,000, respectively. Also, the taxpayer must own and reside in a primary residence for at least three years prior to their base year of eligibility. A legislative change for 2009 decreased the primary residency requirement from three to two years for certain taxpayers. During our audit we identified various sources of data to accurately substantiate eligibility requirements which the Department of the Treasury, Division of Taxation (division) was not utilizing.

Age or Disability Eligibility

The division requires a taxpayer 65 or older to submit a valid copy of their driver's license, birth certificate, or other valid form of identification with their first year PTR application (PTR-1). A disabled homeowner is required to submit a copy of their social security disability award notification during their initial application process. Prior to 2002 the division did not require new PTR recipients to provide proof of age or disability documentation. For tax year 2007 there were 50,000 PTR recipients who entered the program before 2002. Although the division now requests age or disability documentation, no procedures are performed to verify the accuracy of the information they receive or to follow up when taxpayers fail to provide this information.

The PTR-1 application is submitted to the Division of Revenue, where it is processed onto the Generic Tax System (GENTS). If proof of age or disability is not present the Division of Revenue does not notify the Division of Taxation. In addition, the Division of Taxation does not have adequate system edits to recognize age or disability discrepancies.

We randomly sampled 38 PTR reimbursements from tax year 2007 and noted 15 exceptions for inadequate age or disability documentation. Also, we identified 6,000 recipients who were less than 65 based on a federally sourced date of birth. We determined that 4,800 of these recipients were recorded on the GENTS system as being greater than 65 for PTR eligibility. A sample of 20 disclosed 18 recipients had filed as disabled but were incorrectly processed by the Division of Revenue as greater than 65.

**DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION
REBATE ELIGIBILITY**

Furthermore, we matched the 6,000 recipients who were less than 65 to Federal 1040 data. We determined that 405 PTR recipients, who received \$318,000 in reimbursements, claimed no social security on their federal returns, indicating a high potential for ineligibility based on a disability. We tested a sample of ten and found that seven PTR recipients had no social security documentation on file.

Income Eligibility

To be eligible for a 2007 PTR a senior homeowner's income or combined income must be less than or equal to \$60,000. The division is not utilizing Federal 1040 data to verify income limits. The division houses federal data within its Taxation Data Warehouse Unit (TDW). Through cooperation with TDW, a match was performed between 2007 PTR participants and their corresponding federal tax returns. The match resulted in 1,247 PTR claims, totaling approximately \$1.3 million, which had qualified sources of income greater than the PTR income threshold. PTR instructions clearly state income limitations for program qualification and what sources of income are included or exempt from this calculation. Additionally, a detailed income worksheet is prepared by the taxpayer annually that should provide all reportable income earned. The division uses this information as a verification source. Based on our testing we noted taxpayers were not reporting the same qualified income sources on their PTR compared to amounts reported on their federal tax forms.

Ownership Eligibility

PTR eligibility instructions require the taxpayer to both own and live in the residence three years prior to the year in which they are claiming a tax reimbursement. Although the division has access to New Jersey Property Tax Systems (MODIV) real estate sales data, it does not utilize this information to verify the three-year residency requirement. For tax year 2007, using data analysis techniques, we identified a population of PTR recipients that have a high likelihood of being ineligible due to not meeting the three-year ownership criteria. We focused on property sales with a dollar value greater than \$1,000 in order to reduce the risk of including transfer of ownership transactions such as life estates. Our analysis identified 824 likely ineligible taxpayers that received \$359,000 in PTR reimbursements. We sampled ten transactions more closely and noted no deed evidence to suggest that nine of the PTR recipients satisfied the three-year ownership eligibility requirement.

Verification of Property Tax Deduction Eligibility – Background

Currently, municipalities are responsible for administering and monitoring the Property Tax Deduction programs. All deductions are reimbursed to the municipality by the State. Additionally, they receive an administrative fee that is based on how many deductions they administer per year.

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Senior Deduction Income Eligibility

One of the eligibility criteria for a 2007 Senior Property Tax Deduction is that a homeowner's income or combined income must not exceed \$10,000, after permitted income exclusions. Municipalities are required to distribute and collect form PD-5. This form requires the taxpayer to confirm they did not exceed the prescribed senior deduction income limit in the previous tax year and do not expect to in the upcoming tax year. Municipalities are unable to verify this information. In addition, the division is not utilizing a combination of Federal and State 1040 data to verify income limits. We matched the entire statewide property tax deduction population for tax year 2007 against a combination of Federal and State 1040 reported income data and found 9,162 cases, totaling \$2.3 million, where the taxpayer exceeded the income limit and therefore was ineligible to receive the deduction.

Selection and Testing Methods of Deduction Programs by the Division

The division currently audits municipalities for the Property Tax Deduction programs. From calendar year 2006 through 2008 the division performed an average of six municipal audits a year, which consisted of 100 percent testing of their senior and veteran deduction populations. The audits have only been performed in two counties. The audits have been able to identify an average exception rate of five percent. We noticed there are common errors among the audit exceptions found and the division could utilize information resources available to assess high risk populations to aid in selecting audits. By using a more risk based sampling approach in selecting and conducting its audits, the division could have a greater monitoring presence throughout the state.

TOWN OF PHILLIPSBURG SCHOOL DISTRICT

Health Benefits Cost

The Town of Phillipsburg School District (district) is covered by minimum premium insurance plans for health benefits and prescription drugs. Fiscal year 2008 and 2009 costs amounted to \$7.6 and \$7.9 million, respectively per the provider's financial statements. These costs included \$400,000 in broker fees. The State offers medical and prescription drug coverage to qualified school employees and retirees, and their eligible dependents under the School Employees' Health Benefits Program (SEHBP). Local employers must adopt a resolution to participate in the SEHBP. We performed a comparison of Phillipsburg School District's fiscal year 2008 and 2009 health benefits costs to the SEHBP's costs utilizing state rates effective April 1, 2008 to December 31, 2008 and January 1, 2009 to December 31, 2009. We estimate that the district could have saved \$1.7 million in fiscal year 2008 and \$2.2 million in fiscal year 2009 if it had participated in the SEHBP. The SEHBP rates increased nearly 25 percent for calendar year 2010. Even if the 2010 SEHBP rates were applied to the district's fiscal year 2009 health benefits costs, there would be a savings of \$850,000.

Internal Controls

Management is responsible for establishing and enforcing internal controls that safeguard assets from loss or unauthorized use. Proper segregation of duties and maintenance of accurate and complete documentation are necessary to ensure the proper use of resources as authorized by the school board. While the district has taken steps to strengthen internal controls, our review has identified deficiencies in segregating incompatible duties and controls over purchasing.

Segregation of Duties

Access controls are necessary to prevent unauthorized use of computer resources. System users should only be provided with the access necessary to perform assigned job responsibilities. The district used the E-map accounting system to process payroll and expenditure transactions. Our review of the E-map system access levels showed four individuals, the Business Administrator, the Assistant Business Administrator, and their Secretary, and the Secretary of the Superintendent, had privileges allowing full procurement and payroll access. Also, all full-time accounts payable employees had privileges allowing full procurement access and two of the three payroll employees had full payroll access. In addition to full procurement access, the accounts payable employees could establish vendors on the system, increase purchase order amounts, print and run checks through a check signing machine, and were responsible for the check distribution. The payroll supervisor, who has the ability to add/remove an employee on the payroll system and process their pay, also receives the paychecks for distribution.

TOWN OF PHILLIPSBURG SCHOOL DISTRICT

Fiscal year 2009 middle and high school student activity fund expenditures were \$62,000 and \$346,000, respectively. We found a lack of segregation of duties for both funds. In each school the same person receives cash, makes deposits, and prepares reconciliations. In addition, there is no audit trail for revenues collected, which would exist if receipt books were used. Therefore, we were unable to test for propriety. Our test of 19 middle school activity fund expenditure transactions showed a lack of supporting documentation for five transactions. In addition, we noted two documents included copied approvals. Our test of 62 high school activity fund expenditure transactions showed the comptroller's rubber stamp was used 60 times for the approval. We also noted that on three occasions items purchased were shipped to requestors' homes, and on two occasions cash advances were inappropriately made. Both the comptroller's rubber stamp and the checkbook are kept in the comptroller's unlocked desk.

General fund checks for payments to sport officials are made out to the athletic director. He deposits the checks to the separate athletic bank account and pays the officials as needed. At the end of the school year, a check is issued to the Phillipsburg Board of Education for any unused funds. We tested 24 payments to sport officials and noted five payment vouchers were missing and eight contained incomplete details such as a missing check number, amount, or the paid official's social security number or signature. The district's Business Office does not request or review any documentation supporting the athletic bank account activity.

Purchasing

Our review of purchasing controls disclosed the following weaknesses.

- Our review of the E-map master vendor file showed duplicate entries for approximately 300 vendors. Also, 5,912 of the 7,594 vendors have not been used since July 1, 2007.
- Manual checks are signed with signature stamps. The stamps and a key to the check printing machine are kept in the same location that is often unlocked and accessible by Business Office employees including accounts payable clerks.
- Our testing disclosed a lack of Business Administrator approval for 28 of 88 purchase orders and a lack of proper supporting documentation and/or description for 19 purchase orders. We also noted a lack of evidence of proper bids or quotes for 10 of 23 purchase orders tested. In addition, there were 26 purchase orders created after the services had been completed or invoiced.

TOWN OF PHILLIPSBURG SCHOOL DISTRICT

- The district does not have a centralized receiving unit. Deliveries are made directly to the requisitioning school or department. A gold copy of the purchase order is being utilized as a receiving report. It should be signed after delivery is taken, goods verified, or services completed. The document should then be forwarded to the Business Office before payment is made to a vendor. We tested 47 receiving reports and noted 25 were signed by the Business Office accounts payable clerks using the receiver's name and then initialed by the clerks. In addition, two reports had no signatures of the receiver.
- According to the fiscal year 2010 agreement for legal services, the district should compensate the law firm \$12,000 for ordinary preparation for and attendance at all regularly scheduled board committee, and special/emergency meetings and day-to-day communications. Additional services rendered are to be billed at the hourly rate of \$150 for all legal work performed by attorneys and \$75 for work performed by paraprofessionals. We were not provided with a copy of the fiscal year 2008 and 2009 agreements; however, per the board minutes the fiscal year 2009 rates were \$150 for attorneys and \$90 for paraprofessionals. The review of fiscal year 2008 and 2009 invoices from the vendor showed some work performed by attorneys was billed at \$295 per hour and work performed by paraprofessionals was billed at \$95 per hour. The possible overpayments amounted to \$1,046.
- The district leases 20,000 square feet of office space to house its Business Office and Special Services unit. The district pays a fixed rent based on a per square footage rate and a percentage of operating expenses as defined in the lease agreement. The district paid \$335,000 in fixed rent during lease year 2008, which included part of the building operating expenses. Total operating expenses for the building were \$442,000. The district was responsible for 39 percent of the total operating costs, which resulted in the district being required to make an additional payment of \$43,000 to the landlord. The district does not request an end-of-year breakdown with supporting documentation of operating expenses from the landlord to verify their accuracy.

The facility is occupied by another tenant, an outpatient health and wellness care provider. There are no separate gas and electric meters installed which would identify actual utility usage for each tenant. The landlord reported \$152,000 in electric and gas expenses for the 2008 lease year. The health care facility is open seven days a week and its operating hours run from 5:15 am to 9:00 pm Monday through Friday and 7:30 am to 1:00 pm on Saturday and Sunday. It is probable that the wellness center utilizes more energy than what it is charged based on its square footage of occupancy. A more equitable allocation of these costs should be negotiated or actual costs based on the installation of separate meters should be provided.

TOWN OF PHILLIPSBURG SCHOOL DISTRICT

- The district provides health, prescription, and dental coverage to its eligible employees and their dependents through two private health insurance companies. The district is required to notify the plan administrators of any changes in coverage due to hiring, terminations, or changes in coverage status. We compared the May 2009 billing lists of covered employees to the May payroll data and found that six former employees were not removed from medical and prescription coverage for a period of 8 to 17 months after termination. We also found that dental premiums were paid for 27 former employees for a period of three months to seven years after termination. We communicated the findings to the district and were assured terminated employees would be removed from the coverage rolls. We performed a follow-up test and found that 4 of the 27 employees were still listed on a November 2009 dental bill. We were informed that these individuals were not visible as being active on the provider website when the district attempted to delete them. The district failed to review monthly itemized lists supporting subsequent dental bills which would have identified the four individuals. We also contacted the insurance companies about claims filed by the former employees and found that six individuals have used the dental coverage and two individuals used medical coverage after they terminated employment with the district. The errors noted amounted to \$19,000 in overpayments for dental premiums calculated using 2009 rates and \$70,000 in overpayments for medical and prescription premiums paid.

The district relies on a broker for the health coverage. It does not have a contract nor does it receive details of itemized claims by employee.

**INFORMATION
TECHNOLOGY ISSUES**

NEW JERSEY JUDICIARY INFORMATION TECHNOLOGY

Network Security

Testing was performed on the Judiciary's logical network and critical devices that are components of that network. Based on testing, network security should be strengthened in specific areas.

The Judiciary allows services over logical connections between computers that may not be necessary and these services should be turned off if found to be unnecessary. In addition, weaknesses in the software update process were noted and should be improved. Our testing also revealed that controls over user account management should be improved, as well as controls over specific servers that we tested. Finally, testing discovered the potential for unauthorized extensions of the Judiciary Local Area Network. The control weaknesses noted increase the risk of unauthorized access and network disruption. We provided the Judiciary with the necessary technical details for these items under a separate cover.

Logical Access

Access to the Judiciary mainframe is granted through Resource Access Control Facility (RACF). We noted that this access is not always removed in a timely manner for users who have separated service. The Security Group has developed proposed changes to improve the process. Industry best practices state that a policy and procedure should be in place to address when a user separates service so that access is suspended and the user removed in a timely manner to ensure that risks are minimized. We provided the Judiciary with the necessary technical details under separate cover.

Change Management

The Judiciary does not have a formal written policy governing their change management process for software, hardware, or networks. In place of a formal policy they maintain informal steps that are followed and noted with their change request form.

A formal change control procedure should include identification and recording, categorization and prioritization, planning and testing, formal approval procedures, communication to all parties, and fallback procedures. Inadequate control of changes to information processing facilities and systems is a common cause of system or security failures.

NEW JERSEY JUDICIARY INFORMATION TECHNOLOGY

Asset Control

Fixed Asset Management System (FAMS)

The Judiciary's Fixed Asset Management System (FAMS) is inaccurate with regard to its IT related assets. Our audit tests for physical existence noted that of the 147 sampled machines, 24 (16.3%) could not be located and four servers (2.7%) were found in operation after being informed they had been moved to surplus inventory. We also selected 50 machines at random to trace to FAMS for completeness. Of those 50, five (10%) were not listed. During the course of the audit, we noted that the Judiciary is researching options to replace FAMS.

An accurate and effective system that manages fixed assets allows an agency to identify who is currently in possession of an asset and where that asset is located. It also enables that agency to determine, quickly and effectively, any problems associated with their fixed asset inventory.

The FAMS is generally updated only when a machine is originally issued to its first user, and it is not updated consistently with any subsequent moves throughout the Judiciary. This is due to the paperwork and large number of approvals required to update the FAMS, as well as a general lack of communication between operating units with regards to IT related assets.

Unapproved Software

During our testing of controls over information technology assets we found that a number of computers had unapproved software installed. Much of this software was installed without written authorization of the Information Technology Office (ITO). The Judiciary's Information Technology Security Policy, Directive #3-06, states that no user shall install software not provided by the Judiciary on Judiciary equipment without authorization of the ITO or local IT manager. Audit testing and discussions with management revealed a lack of monitoring and enforcement of this directive by the Judiciary.

The installation of unauthorized software increases the risk of malicious programs, such as viruses, being introduced into the Judiciary's network indirectly allowing unauthorized access or network disruption. The installation of personal software can also be a violation of copyright laws which would expose the Judiciary to a host of legal issues and can utilize a large amount of resources, reducing the performance of not only the machine it is installed on, but also the whole network.

OFFICE OF INFORMATION TECHNOLOGY DATA CENTER

Physical Access Controls

The HUB data center houses the Bull mainframe computer and client servers, as well as providing state printing processes. The River Road data center contains the IBM mainframe computer and a server farm for clients. It also includes the Network Control Center and the System Control Center, which is the help desk for all state departments. Both facilities process various mission critical applications for the state. The Office of Information Technology Availability and Recovery Site serves as the state's backup and recovery, and business continuity and disaster recovery site. Each facility is integral in the processing of applications that are vital to the functioning of the state and for providing electronic services to its citizens.

Access to the HUB, River Road, and Office of Information Technology (OIT) Availability and Recovery Site (OARS) data centers is controlled by card readers requiring access card badges encoded with the necessary access level for entry into these facilities. The access control system, Compass 4-E, is the responsibility of the Department of the Treasury, Office of Treasury Technology, Interdepartmental Security Unit (ISU). ISU controls the security infrastructure of all Department of the Treasury owned and leased property. OIT issues the access badges to those individuals requiring entry into the River View Plaza location, as well as the data centers. Access levels granted to these individuals were established at the time of inception of the Compass 4-E system as part of the Y2K initiative. OIT does not have the ability to directly revise these access levels or monitor access into their facilities without ISU's involvement. ISU is responsible for administering all door card readers and access levels. Periodic communication or reporting has not been established which would enable OIT to examine access to ensure that its facilities are adequately controlled.

Several weaknesses were found during our audit. Doors to sensitive areas in the data centers were found to be unsecured either by being unlocked or by card readers not functioning. For example, of the four doors allowing access to the computer room at the HUB data center with card access to control admittance, two doors were able to be opened without using a key card. In addition, the card reader for the door to the telecommunications room was turned off and the door was left unlocked.

Of the 1,511 badges OIT has issued, there are 1,507 unique names on these badges. Some employees have multiple badges accounting for the difference. All but eight of these badges initially had access levels allowing admittance into the computer room at the River Road Data Center. After discussion with facilities management, ISU was notified and the access level was corrected. Presently, 499 badges have the ability to gain access to the River Road data center's computer room; 525 can access the HUB data center computer room; and 280 can access the OARS data center computer room. Access to at least one of the three data centers is provided on 544 badges. An analysis of the 544 badges is presented in the following table.

**OFFICE OF INFORMATION TECHNOLOGY
DATA CENTER**

OIT	293
Consultants, Auditors, and Vendors	81
State Police	80
Another Agency	46
Not on State Directory	31
Retired	7
General (e.g. "cleaning people")	4
Temporary	2

It is questionable whether these badges only allow admittance to those users whose job responsibilities require access. As the table above shows, there are active badges belonging to retired employees. There are also many badges active for consultants, auditors, vendors, and staff of other agencies where access might not be warranted.

Valuable assets and information resources for the state and its citizens are at risk of being lost, damaged, or misappropriated. In accordance with CobiT control objectives, procedures should be defined and implemented to grant, limit, and revoke access to premises, buildings, and areas according to business needs, including emergencies. Access to premises, buildings, and areas should be justified, authorized, logged, and monitored. This should apply to all persons entering the premises, including staff, temporary staff, clients, vendors, visitors, or any other third party. Written policies and procedures addressing the issuance, removal, and monitoring of access badges have not been developed. The current access levels do not adequately limit access to these high-risk facilities. In addition, the designed control of the card readers has been circumvented through their disconnection to the system in some instances.

Computer Inventory

In order to provide an assurance of the security of the hardware at the data centers, we requested a listing of hardware to sample items at the respective data centers. We obtained information from the Office of Information Technology's (OIT) asset management system, the Fixed Asset Inventory Reporting System (FAIRS). This is an automated on-line system providing access to a database of OIT's hardware and software inventory records. The FAIRS database consists of individual detail records for all of OIT's data processing hardware, mainframe software, and client-owned terminal equipment connected to the OIT network. Each record consists of more than 40 data fields that define and locate the equipment and provide other information needed for OIT's purposes and for those organizations with which OIT interfaces. An assessment of the asset inventory is performed on an annual basis at which time any changes are entered into FAIRS. In addition, OIT does not currently have a central, comprehensive list of applications and their respective platforms on which they run. However, they are in the process of populating the Automated Server Application Inventory (ASAI) of applications currently processed on the servers.

**OFFICE OF INFORMATION TECHNOLOGY
DATA CENTER**

Although we did not perform an audit of FAIRS, it was through our attempt to obtain a hardware inventory listing that weaknesses surfaced concerning OIT's asset management system. In order to accurately account for the hardware and software assets, it is vital to have a system in place that will properly record the asset and track it through its life cycle. In accordance with CobiT objectives, asset tracking and monitoring of individual IT assets help protect them and prevent theft, misuse, and abuse. In addition, a comprehensive listing of applications and the platform on which they are run will ensure that mission critical applications are documented to help prevent the applications from experiencing interruptions and to optimize the equipment as best as possible.

FAIRS may not provide an accurate representation of assets and their value because of inconsistencies in how assets are actually recorded in this system. This could lead to potential misappropriation of assets if they are not properly recorded. OIT may also not possess complete knowledge as to what assets they truly have and where they are located. Lack of a central, comprehensive application listing makes administering the servers that they are run on more difficult, especially when an upgrade is necessary. Without this complete listing, it may be difficult to determine what applications will be affected by a change. Optimization of equipment cannot be achieved if current information on what applications are on which servers is not readily available to the server administrators.

**SCHOOL DISTRICT
ISSUES**

TOWNSHIP OF LAKEWOOD SCHOOL DISTRICT

Vendor and Employee

The Township of Lakewood School District (district) board attorney also works as an employee of the district. The board attorney was paid \$326,000 for fiscal year 2009 as a vendor and was also paid \$123,000 plus benefits as an employee in the title Non-Public Special Education Consultant. As the board attorney he may have to recuse himself from giving legal advice on employee matters which may impact him or other employees where there is an appearance of a potential conflict of interest.

We noted several control issues regarding the above arrangement. Time sheets were not being submitted to document time worked as an employee. Also, the employment contract did not contain a termination clause which is commonly used in other district employee contracts.

Segregation of Duties

Certain employees are granted edit access within the accounting system which is outside the scope of their job responsibilities. Management has not implemented the necessary security controls that assess user needs in relation to their applicable job functions.

Payroll personnel have edit access to various functions for human resources. The business office also has edit access to human resources and payroll functions. In addition, three other employees who do not work in the human resources unit have edit access.

Exception reports are not generated and sent to the business office, human resources, or payroll personnel when modifications are made to wages or when individuals are added or removed from the system. These reports should identify who actually initiated the changes.

Additionally, the security administrator of the system who works in the business office has final approval needed to process expenditure transactions. This individual also has edit capabilities for human resources and payroll functions. System reports identifying any activity by this individual are not generated and sent to the business administrator as a monitoring tool.

Expenditure Accruals

District-wide financial statements are prepared using the accrual basis of accounting; expenses should be recognized at the time they are incurred. In fiscal year 2007 the district received permission from the Department of the Treasury to delay premium payments for state health benefits for up to two months. Upon instituting this delay, payments were recognized in the month of payment rather than the date expenditures were incurred. In fiscal year 2007 only ten months of health benefits were recognized in the financial statements, resulting in a \$1.2 million underreporting of expenditures. The district failed to recognize the liability for May and June 2007 and continues to base its financial statements on a method not consistent with generally accepted accounting principles.

TOWNSHIP OF LAKEWOOD SCHOOL DISTRICT

Also, there is a clause in the business administrator's contract that stipulates that his 2009-2010 employment contract was "dependent on there being a surplus" for the 2008-2009 school year. This clause further increases the risk of improper activity by providing an incentive to misstate financial activity or statements.

Budgeting

Employee salary accounts increased an average of seven percent per year from fiscal years 2006 to 2008. The district's budgetary totals increased an average of four percent per year which only accounted for the contractual step and cost of living increases as outlined in collective bargaining unit contracts. The increase in the budget did not include the actual historical increase in salaries. During fiscal year 2006, the district budgeted a three percent increase from the previous year's budgeted totals to arrive at a \$30.6 million amount; however, actual expenditures increased by 6.5 percent to \$31.3 million. This resulted in an inaccurate base year amount for future salary budgets. In fiscal year 2007, the year of the deficit, the district continued to use a base of the previous year's budget totals instead of projected actual totals. The fiscal year 2007 budget was increased four percent to \$31.9 million which was \$1.8 million lower than the \$33.7 million actual salaries.

Extra Compensation Monitoring

Extra compensation is approved at Board of Education (BOE) meetings for various reasons including substitute teacher wages, non-contractual stipends, extra curricular activities, overtime, home instruction, mentoring, latchkey, or payments for unused sick time. Extra compensation totaled ten percent of payroll for fiscal year 2009 or approximately \$4.4 million. Once approved for extra compensation and the work assignment is completed, the employee will fill out a payroll voucher and submit it to the payroll unit. This unit does not verify if the extra compensation has prior BOE approval. The voucher is not always signed by the immediate supervisor and the overtime rate is indicated on the voucher by the employee and is not verified by the payroll unit. The employee usually will document total hours worked per day, but not the actual time of day worked. In addition, we noted that the business administrator does not approve the payroll vouchers.

We tested 103 employees and 700 vouchers for extra compensation payments during calendar year 2008 and identified the following issues.

- Thirty-three percent of the employees received extra compensation payments in excess of what should have been paid based on BOE approval. The excess totaled approximately \$45,000.
- Supporting documentation for 49 percent of the vouchers submitted was not found. Often payments were made with little or no support. Total unsupported payments amounted to approximately \$667,000 of the extra compensation dollars tested. A total of \$600,000 related to missing employee attendance records documenting payment for unused leave time.

TOWNSHIP OF LAKEWOOD SCHOOL DISTRICT

- Thirty percent of vouchers paid did not receive prior BOE approval and/or the direct supervisory approval for payments amounting to approximately \$200,000. In addition, vouchers needed approval from the administration and the business office. Seventy-seven percent lacked the proper signatures and dates on the payment vouchers.
- Three percent of the vouchers were submitted more than 60 days after the work was completed. There is no time limit set by management for submission of vouchers. Some vouchers were submitted a year after work was completed.

Examples of the above weaknesses follow.

- Unused sick, vacation, and personal time totaling \$295,000 was approved by the BOE for the district superintendent who retired June 30, 2008. This payment was made in accordance with the employee's contract; however, leave time records indicated the payment exceeded the available balance by 12.25 days or \$10,000.
- One full-time teacher received two stipends in December 2008 totaling \$11,100. One \$3,150 stipend was not approved by the BOE. This employee also submitted a separate payroll voucher for duties as a coach which did not have prior approval by the BOE. The \$3,600 voucher was paid on October 24, 2008 for work completed June through August 2008. A signature stamp from the assistant superintendent was the only form of approval.
- An employee received prior approval in fiscal years 2008 and 2009 from the BOE for extra compensation for in-house printing services at the rate of \$30 per hour. After a new collective bargaining contract was approved, employee billings reflected the new approved rate of \$40 per hour from May 5, 2008 to August 21, 2008. The employee was paid \$32,750 for printing services in addition to their \$23,000 salary. The employee listed total hours worked each day on the vouchers including hours during weekends, holidays, and days when the district was closed. Billings for printing services increased during the summer months. The vouchers were not approved by the on-site supervisor.
- A substitute teacher received a non-contractual stipend payment for \$15,750 in September 2008. There is no supporting documentation for this payment nor is there BOE approval. After questioning the payroll unit the business office became aware of an agreement between the employee and the payroll vendor for that year stipulating the employee would continue substitute duties without pay until the employee paid back everything owed. The employee informed the business office that a balance of \$3,250 remained as of January 1, 2009 and the business office used this information as a starting point towards recouping the funds. We were not provided any supporting documentation substantiating the accuracy of this balance.

TOWNSHIP OF LAKEWOOD SCHOOL DISTRICT

Manual Paychecks

While reviewing payroll bank statements, we noted manually processed checks were not recorded in the payroll register in calendar year 2008. As a result, \$200,000 of payments was not recorded in the district's financial system. In addition, we could not determine whether the related income and social security taxes were properly withheld and remitted. Annual reporting to federal and state governments is also inaccurate.

Furthermore, since payroll personnel have system edit access to human resources, the risks of improper payments is heightened. This includes the risks of payments to non-district individuals as well as unauthorized payments to district employees. We tested 31 manual paychecks and noted the only supporting documentation available for 61 percent of the payments was the bank statements. Due to the lack of supporting documentation, it is unknown whether the payments were approved and calculated correctly.

The current payroll software in use by the district since January 2009 has lessened the risk of manual checks being processed.

Inappropriate Payroll Activity

Disbursements from the district's payroll bank account should be directly related to net payroll expenditures as approved by the district. Inappropriate activity was disbursed from the payroll bank account and appeared on the bank statements from December 2007 to April 2009. We noted 11 payments made to various vendors (i.e. JC Penney, Verizon, HSBC Bank, etc.) for amounts up to \$1,000. Total inappropriate payments approximated \$5,000.

The district informed us that these payments were found by the business administrator when monitoring the bank statements and that he had contacted the bank in September 2008. We were told that the initial documentation provided to the business administrator was discarded. We requested the district contact the bank and obtain the documentation. The district's account manager received copies of affidavits sent from the district to the bank claiming specific unauthorized and inappropriate charges and proof of the bank approving these claimant requests to reimburse the account for the specific charges. Although the district began submitting these filings of unauthorized payments in September 2008, we observed the inappropriate payments continuing through April 2009. The district did not provide any type of documentation that would indicate that these payments were investigated by law enforcement.

TOWNSHIP OF LAKEWOOD SCHOOL DISTRICT

Employee Contracts

Employee contracts should be retained as a means to verify acceptance of terms by all parties involved. The school district records retention schedule per the Division of Archives and Records Management stipulates that employee contracts should be kept on file up to six years after termination. We selected 98 employees to determine if an approved salary contract for 2008-2009 school year was on file. All employees tested were approved during the public Board of Education (BOE) meetings. We identified 19 exceptions as follows:

- nine employee contracts could not be located in their file,
- eight contracts were not signed by the BOE,
- one contract was not dated, and
- one contract was approved by the BOE more than two months after the employee had commenced work.

Employee Working Days

We observed that employees who commenced work after the start of the work year were being inaccurately paid. The district uses 220 days in their calculation for non-teaching staff when arriving at their biweekly pay.

The district also calculates unused leave time and overtime rates for non-teaching staff by dividing an employee's salary by 220 days. This is in accordance with the employees' contracts. However, this methodology results in an overpayment of approximately 15 percent when compared to a method using the actual number of compensable work days, between 260 and 262, in a year. We tested nine payments totaling \$345,000 in unused leave time and identified additional payments totaling \$53,000 when using the 220 day basis.

Purchasing Controls

The district has a decentralized purchasing approach. This requires many individuals to obtain a working knowledge of purchasing requirements which typically involves a buyer's field of expertise. Maintenance of accurate and complete documentation is necessary to ensure the proper use of resources as authorized by the district. Our review disclosed that the documentation to support transactions was often vague, inadequate, or incomplete. Examples of the types of exceptions noted during our testing follows.

TOWNSHIP OF LAKEWOOD SCHOOL DISTRICT

- Fifty-one of 124 expenditures tested were not recorded by the district prior to the receipt of goods or services being rendered. Paperwork involving requests and approvals were prepared after delivery of the goods and services. As a result, the business office did not have full knowledge of the obligations of the district and each department within the district had the ability to overspend their budget without the knowledge of the business office. For example, the district paid \$15,000 for data analysis and reporting services. The vendor invoice date was May 23, 2008 and the purchase order date was September 16, 2008 which makes this a confirming purchase order.
- One hundred seven of 124 expenditures tested lacked all required approvals.
- Sixty-one of 136 expenditures tested lacked proper supporting documentation. Twelve of these expenditures had no support on file.
- Payment amounts for 32 of the 124 expenditures tested were incorrect. For example, the district is providing occupational, physical, and speech therapy services to public and non-public children. The district has approximately 16 employees and 50 consultants providing these services. Every child has an Individual Education Plan (IEP) that documents the type of services being given and the number of hours. The consultants are paid as vendors at a predetermined hourly rate. All invoices are being approved by the Related Services Unit. The unit spot checks selective invoices with IEPs to verify the hours of therapy being provided and hours being billed. The IEPs are not routinely submitted with every invoice. The invoice process and the number of total hours being charged is a manual process. The district pays these consultants approximately \$1.7 million annually. We summarized two invoices and found that the invoiced amounts should have been \$5,500 which was \$9,500 less than the actual billings.
- Twenty-two expenditures totaling \$800,000 of the 124 tested were charged to the wrong fiscal year. This practice misrepresents the school district's financial position.
- We could not verify that a reasonable price was obtained for 9 of 17 expenditures tested.
- The district maintains a student activity account and an athletic account with annual receipts and disbursements of approximately \$100,000. Both accounts have their own checking account and they are maintained by the same teacher at Lakewood High School. The district partially funds the student activity account and significantly funds the athletic account. Our review found that the district does not have an adequate system of internal controls because of the one person operation. The business office is involved in the check approval process but it does not perform a review of activity and it does not monitor the cash receipts for the various athletic events. We observed that the checks were not kept in a secure location, but instead they were left out in an office at the Lakewood High School. Our expenditure testing found no significant errors.

TOWNSHIP OF LAKEWOOD SCHOOL DISTRICT

- In one instance 34 teachers went on a field trip to Washington, D.C. from the Metro Park train station in New Jersey. An Amtrak train was taken to Washington, D.C. at a round trip cost of \$5,000. The district also paid for a bus from New Jersey to drive empty to Washington, D.C. to shuttle them around the area for an additional \$3,900.

During our review we noted two possible related party transactions. The executive director for two non-public schools purchased equipment such as computers and printers from a company that he owns. These purchases were made through the New Jersey Non-Public School Technology Initiative Program. This non-public school executive director was also a contracted vendor that was used to transport and install temporary classroom units. An additional potential related party transaction from another vendor for a different non-public school exists. We noted that the district could not provide proof of registration with the State of New Jersey for these vendors which is required before the school district can enter into a contract. The district could not provide political contribution disclosure forms and stockholder disclosure certifications for the vendors.

Fixed Assets

The goal of the New Jersey Non-Public Technology Initiative Program is to provide non-public school pupils with computers, educational software, distance learning equipment, and other technologies that can improve their education by meeting their specific educational needs and to provide non-public school teachers with the skills, resources, and incentives to use educational technologies effectively to improve teaching and learning in their classroom. Four schools were selected and purchase orders were reviewed from the 2007 to 2009 school years and fixed assets were verified for existence. Twenty-nine of 188 assets tested were missing at three of the four schools. Items missing included computers, printers, and digital cameras. All four schools purchased equipment that was used for administration which is a violation of the program guidelines. A further review of equipment purchased for all the non-public schools for the 2007 to 2009 school years disclosed that 61 invoices totaling \$80,000 were for non-allowable items such as printer ink and toner.

None of the schools tested had any packing slips, fixed asset logs, and tags stating that the equipment is "Property of Lakewood School District." Also, the non-public schools were not returning broken equipment to the district as required by the program.

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Home Instruction Program

In accordance with the state administrative code, the Trenton Board of Education (board) is required to provide instructional services (home instruction) at a student's home or another suitable setting when certain health conditions, legal violations, court orders, or suspensions occur. In addition, a student with a disability (classified) may be placed in the home instruction program when it can be documented that all other less restrictive program options have been considered and determined inappropriate, or while awaiting placement.

The board paid 85 employees approximately \$950,000 in fiscal year 2008 and 82 employees approximately \$1 million in fiscal year 2009 to provide home instruction to students. The program is managed by the Office of Special Services. We found a lack of controls over the program resulting in violations of the administrative code and board policy, as well as overpayments by the Trenton School District (district).

Program Compliance

We chose a sample of the ten highest paid home instructors for our testing. These individuals provided home instruction for 136 students. No documentation was available to support the eligibility of approximately half (66) of these students for home instruction services.

In accordance with N.J.A.C. 6A:14-4.8, the district should provide the Department of Education with written notification of its intent to provide home instruction to a classified (disabled) student. Notification is effective for a maximum of 60 calendar days at which time renewal for another 60 calendar days is necessary. Fifty-five of the 136 students in our review were classified. The district could not provide notification forms for approximately half (26) of the classified students. Additionally, we were not provided with any renewal forms for the 28 classified students who received services beyond 60 days.

Board policy states that each student must be board approved for home instruction. We found that no students were board approved. The district's practice is to board approve home instructors each year. We found one home instructor in our sample was not approved in fiscal year 2008 and was paid \$27,300. In addition, home instructors are required to submit lesson plans to the Office of Special Services for each student. No lesson plans were on file for 115 of the 136 students in our sample.

An Individualized Program Plan (IPP) for a student without disabilities whose projected confinement will exceed 30 consecutive calendar days should be developed. We were not provided with any IPPs for the 28 students in our sample impacted by this provision. A minimum of five hours of instruction should be provided for non-classified students on home instruction for health conditions. Any other condition for home instruction should be assigned a minimum of ten hours per week. We found the district incorrectly applies the code by assigning all non-classified students five hours of home instruction, regardless of the situation.

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Home instruction should be in place of classroom instruction. We found students who received classroom instruction were provided tutoring after school through the home instruction program, which is inappropriate. From our sample of home instructors, we identified tutoring services for three students in fiscal year 2008 at a cost of \$16,000 and six students in fiscal year 2009 at a cost of \$60,000.

Home Instructor Payments

Home instructors are required to submit timesheets to the Office of Special Services. However, the timesheets were not reviewed for reasonableness or accuracy. Total hours on the timesheets were transferred to a form by a secretary in the Office of Special Services and submitted to payroll for payment. The ten home instructors in our sample were paid \$336,000 and \$402,000 in fiscal years 2008 and 2009, respectively. Our testing disclosed questionable payments totaling \$161,000 (48 percent) in fiscal year 2008 and \$160,000 (40 percent) in fiscal year 2009 for the following reasons.

- Home instructors recorded duplicate hours on timesheets totaling \$51,000. We found where home instructors recorded the same times for two students and doubled billed the hours; recorded times that overlapped between students; recorded times for home instruction during the regular work day; and submitted hours for the same date on two timesheets covering overlapping time frames.
- Timesheets could not be provided to support payments totaling \$112,000.
- No start and end times were recorded on timesheets to support hours submitted for payment totaling \$23,000.
- No travel time was reported between school and home instruction locations. We used fifteen minutes as a reasonable travel time. Using this assumption, the district overpaid \$23,000 for time in transit and not with students.
- All ten home instructors reported hours on days utilized for sick or personal reasons totaling \$31,000. One home instructor was on a sick leave of absence from the district for six weeks and continued submitting home instruction timesheets for payment.
- Home instructors reported hours in excess of those authorized totaling \$9,000. In addition, when compared to times recorded on timesheets, we found home instructors submitted inflated hours for payment totaling \$2,000.
- A detailed review of timesheets submitted by one home instructor disclosed that the instructor consistently photocopied, cut, and pasted parent/guardian signatures onto timesheets. Payments resulting from these timesheets totaled \$51,000.

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We attempted to contact 30 parents or guardians to confirm home instruction services and were able to speak with nine. Four of these individuals provided information that disclosed inaccuracies in the time reported. Five of the parents or guardians confirmed the services. However, two of the five never signed the timesheets.

Extra Duty Assignments

The Human Resources Department places teachers on the board agenda for approval to work additional programs. The department does not track or limit the number of programs a teacher may work. The board usually approves a maximum payment per teacher for each program; however, the accounting system is not designed to limit payments for a teacher. We found no procedures in place to monitor the hours reported by teachers working multiple programs simultaneously. This issue was included in our previous audit. However, the district did not follow our prior recommendation in 2002 to implement a comprehensive timesheet for teachers working multiple programs. A risk exists for excessive payments and inaccurate payments for possible overlapping time.

To illustrate, we performed a detailed review of one teacher from our home instruction sample. This teacher, who had a regular salary of \$50,500, received total payments of \$119,000 and \$135,000 for fiscal year 2008 and fiscal year 2009, respectively. The teacher was paid \$117,000 for hours recorded under home instruction during fiscal years 2008 and 2009. In fiscal year 2009 the teacher was paid for nine programs in addition to a regular work assignment. An analysis of fiscal year 2009 payroll disclosed over 2,000 hours of additional pay, which is equivalent to 5.5 hours per day for 365 days. In addition to the hours recorded for extra duty pay, this teacher also received tuition reimbursements for graduate courses, which would have created additional time demands.

We requested timesheets for additional school programs to ensure no overlap with time billed to the home instruction program. The district was unable to provide timesheets to support all additional payments. With the limited documentation provided, we found on two dates where this teacher was paid for chaperoning a school trip and seven and a half hours for home instruction during the same time frame. We also found a date where the same times were recorded for both curriculum writing and home instruction.

Additionally, the teacher utilized 45 in-service days in fiscal year 2009. In-service days are intended for use when a teacher is working outside of the regular job assignment. These assignments should be approved by the school principal. We met with the teacher's principal and administrators who could not confirm the teacher's location on all of these days. The district does not have a policy on the number of in-service days a teacher can report, nor does the time-reporting system flag or limit the number of these days entered. This teacher was out of the classroom for 25 percent of the school year and was assigned a reduced teaching schedule to accommodate this absence from the classroom.

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Monitoring of Attendance

N.J.A.C. 6A:14-1.1 requires that students with disabilities be educated in the least restrictive environment. This may be achieved by sending students out of district, as determined by a district Child Study Team and implemented through an individualized education program (IEP). The district pays annual tuition of approximately \$50,000 for each student sent out of district. This is more than double the district reported \$21,000 cost of educating a special education student in district. The district sent 724 students to 57 out-of-district schools in fiscal year 2008 and 733 students to 47 out-of-district schools in fiscal year 2009 at a cost of \$34.7 million and \$38.7 million, respectively.

We reviewed student attendance records for 13 out-of-district schools which provided services to 607 district students in fiscal year 2008 and to 567 students in fiscal year 2009. The purpose of our review was to verify whether students were regularly attending and therefore receiving the services funded by the district. The board policy on absenteeism states that students cannot have more than 16 absences (approximately 10 percent) per school year. Based on our review, we found approximately half of the out-of-district students had an absenteeism rate greater than 10 percent. We found 120 of the students sampled had absenteeism over 50 days and one as high as 168 days. In comparison, approximately 28 percent of the students in district had an absenteeism rate of greater than 10 percent.

Additionally, we reviewed attendance records for 221 students enrolled in an extended school year out-of-district program for July and August 2007. We found excessive absences in the 32 day summer program.

- Five students missed 10 or more days and 26 students missed between five and nine days in July. If these students had been dropped from the August enrollment, the district could have saved \$91,000.
- Twenty-four students missed every day in July 2007 and were dropped from the program by the out-of-district school. However, the district was billed 10 days at \$242 per day for each student for a total cost of \$58,000.

A January 2008 memorandum directs the Child Study Teams to monitor attendance of out-of-district students. Students with more than five absences should be referred to the Truancy Center and their IEP should be reviewed by a Child Study Team. The Child Study Teams do not review attendance records in a timely manner during the school year and do not work during the summer. We found there are no written policies and procedures on the receipt and review of out-of-district attendance records. In addition, not all students with attendance issues are being referred to the Truancy Center as directed.

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Summer Take Home Book Bag Program

The district was awarded approximately \$8 million in American Recovery and Reinvestment Act (ARRA) funds and assigned the responsibility of distributing and oversight of the funds to the Office of Curriculum Development. The Summer Take Home Book Bag program was quickly developed with the intention of utilizing ARRA funds. However, the district subsequently utilized Title I funds to pay for the materials.

The Summer Take Home Book Bag program provided each student a book bag with two or three books, a logbook, and a list of activities to complete over the summer. The program approval request listed objectives and a projected outcome that at least 80 percent of the students would complete the logbooks and activities. We noted the letters to principals, teachers, and parents explaining the program were distributed only days prior to the last day of school. Program expenditures totaled \$154,000.

We found the Office of Curriculum Development did not request feedback from any schools. We contacted the 21 school principals to follow up on the program. Fifteen stated that the majority of log books and activities were not returned and evaluated. One principal stated that no program materials were provided. The program details submitted for Department of Education approval stated that all books would be returned to the schools. We found that the letter sent home with the students contradicted the approved program as it stated the students could keep the books. Only one principal collected the books from the students.

Accounting Practice

When the appropriation for a budget line item is insufficient to meet expenditures, approved transfers from similar line items should be processed. We found that the district accountant improperly reclassified expenditures to avoid disclosing the overexpenditure of budgeted funds. The district expended approximately \$1 million annually in payments to home instructors in fiscal years 2008 and 2009. However, home instruction expenditures were improperly reported in the annual financial reports as \$602,000 and \$848,000 in fiscal years 2008 and 2009, respectively. As a result, a misleading and inaccurate expenditure figure is utilized in preparing future budgets, which serve as a tool for comparison and control.

Inventory Control

Management is responsible for establishing internal controls that account for the receipt, storage, and distribution of assets to ensure proper usage and safeguarding against misappropriation. We found no inventory system in place during our audit and district personnel could not provide us with any written policies or procedures pertaining to inventory control.

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The district maintains three separate locations for warehousing items. During our tour at each location, we noted numerous items that, if accounted for, could have been utilized within the schools. We observed the following issues.

- Pallets of copy paper valued at approximately \$100,000 were on hand; however, schools continued to place outside orders without verifying the available supply. During our visit to this location more paper was delivered.
- Shelves were stocked with custodial supplies that custodians no longer utilize.
- Four hundred guitars with an estimated value of \$52,000 were donated to the district for a program approximately four years ago. These guitars were in an unorganized pile.
- Twenty-three new laptop computers were stored for one year. Two laptops were stolen from the original order and only one was recovered. These laptops were removed from the warehouse after we notified the Business Administrator.
- A massive quantity of student and school records, dating back to the 1970s, were not stored in an organized manner. These records required a large portion of warehouse space.
- There were 20 boxes of reading kits purchased over one year ago for \$20,000. The program was discontinued and the teacher who placed the order no longer wanted them.
- There were several high dollar items purchased over a year ago, such as 14 large air conditioning units.
- Five areas were set aside for each maintenance trade and contained numerous materials and supplies. The foremen who are responsible for these items maintain no record of items ordered, received, and utilized.
- There were large quantities of furniture, some in a condition not worth storing.

Building Renovations

In June 2004, the City of Trenton took ownership of a district building and in return appropriated \$1.98 million to the district to renovate another city-owned building for school purposes. In January 2005, the district approved a resolution to pay the city \$1 to purchase the building, stating the need for larger office and warehouse space. Since then, the district has expended \$1.8 million and an undisclosed amount of labor costs. Renovations have not been completed and the district has not taken ownership of the building, although they are using a portion of the space for storage.

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The Executive Director of Buildings and Grounds did not require employees to log hours worked on this project into the district's maintenance system. Therefore, we are unable to determine total labor costs for renovations to this building. We were informed that all work was done during downtime. However, we found employees who did log project hours for this building and received overtime payments.

We were informed the building was needed for the Transportation and Truancy departments and for storage of furniture from closing schools. We found that both Truancy and Transportation have ample space within the district. In addition, we found the district has a warehouse that is not efficiently utilized.

We visited the building and observed custom wall colors and a personal bathroom in each office, multiple spacious conference rooms, and a large lounge with a kitchenette for the bus drivers. Renovations have not been done on the second and third floors as this space is used for storage. Work has ceased on this project. The district plan for fiscal year 2011 is to continue using the building for storage and the outside lot for parked buses.

Board Approval Process

The district has standard operating procedures for the board approval process. All items awaiting board approval should be presented during a final agenda review meeting held prior to the board meeting. A number of administrators can submit items for placement on the board agenda. The district employs a secretary to the board who compiles the board agenda items. This employee also has the ability to stamp the signature of both the Business Administrator and Board President.

We reviewed a sample of 30 contracts for students who attended out-of-district schools during fiscal year 2008 to verify proper board approval. We noted the Business Administrator's stamped signature on all of the contracts. In addition, we found that the board does not review and approve each student contract. It approves the number of students enrolled at the beginning of the year for each out-of-district school and periodically updates that number throughout the year.

The district does not utilize a standard contract when sending students out of district. We noted that the contract content varied for each school. Our review of contracts disclosed that the district pays for personal assistants for a number of students sent out of district. This service was included in some contracts, while in others a separate contract for the service is prepared. We sampled two schools and found 17 students were provided personal assistants at a cost of \$1 million to the district for fiscal years 2008 and 2009. The services were agreed upon by the Child Study Teams. Neither the board nor the district administrators had knowledge of these services since contracts are not reviewed and expenditures for out-of-district placements were listed as lump sum amounts on the board agendas. Details of the expenditure were not submitted for board review or presented at the final agenda review.

**WEATHERIZATION
ASSISTANCE
PROGRAM
ISSUES**

**DEPARTMENT OF COMMUNITY AFFAIRS
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WEATHERIZATION ASSISTANCE PROGRAM
ELIGIBILITY**

Eligibility

The U.S. Department of Energy establishes national guidelines for eligibility regarding the Weatherization Assistance Program. It is the responsibility of the Department of Community Affairs (department, DCA) to make rules and set standards for eligibility at the state level and to provide direction to the weatherization agencies regarding the operation of the program. This is done through the issuance of department weatherization bulletins which define income and describe the required documentation to be obtained and maintained by the weatherization agencies in the applicants' files.

The lack of clear and consistent guidance from the federal government has made it difficult for the Department of Community Affairs to provide proper guidance to its subgrantees for determining applicant eligibility. Eligibility for the program is based on total household income which must not exceed 200 percent of the poverty level as adjusted for the number of household members. The components of income are clearly defined by the federal regulations, but they do not make clear how annual income should be determined. The U.S. Department of Energy website states that an applicant for weatherization assistance must have proof of income for the year prior to application. However, the U.S. Department of Energy issued Weatherization Program Notice 09-5 on February 18, 2009 which states that income for a part of a year may be annualized. Their example suggests multiplying by four the amount of income received during the most recent three months.

This inconsistency is reflected in the state's guidelines. The DCA weatherization bulletin which defines income (issued in February 2003) states that income for part of a year may be annualized in order to determine eligibility. The bulletin which lists acceptable income documentation (issued in December 1998) includes income tax returns and W-2 forms, which would show prior year's income.

Income Verification

Because of inconsistent guidance from the department, the process used to determine income eligibility can result in ineligible applicants receiving program services. Various weatherization agencies examined did not collect information for household income for a period longer than 30 days in determining an applicant's income eligibility. The period selected should provide reasonable assurance that the weatherization agency is not providing services to applicants whose household income levels exceed the income eligibility threshold. We identified 12 instances where applicants with household income over \$100,000 in 2008 were approved because they did not provide information about their annual income. Several examples are provided below.

- One individual who works for a school district applied during the summer when her income was reduced. As a result, she was considered eligible when in fact her annual income is over \$100,000.

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- One individual retired in March 2009 and failed to report her earnings of \$35,000 for the first two quarters of the year and her annual \$58,000 pension. Her eligibility was calculated on her monthly social security payments of \$792 and her son's biweekly unemployment compensation income of \$810.
- One individual works for a municipality full time with a second job at the board of education. He reported earnings from rental income but did not report the \$108,000 in wages from his two jobs.
- An individual earned over \$36,000 for the first two quarters in 2009. He was laid off from his job on April 23, 2009 and received \$7,364 in unemployment benefits. He applied on April 28, 2009 and his eligibility was calculated on his reported monthly unemployment income of \$1,265 and his spouse's social security income of \$854. His residence was weatherized on July 1, 2009 for \$1,400. Subsequently, he returned to work on August 5, 2009 and earned over \$35,000 during the remainder of the year.

Our comparison of the Hancock Energy Software Weatherization Assistance Program (HESWAP) database to state income tax records revealed that 34 individuals who were deemed eligible made over \$100,000 in 2008. The department has a cooperative agreement with the New Jersey Department of Labor and Workforce Development to obtain income information about applicants and participants of various DCA programs; it does not currently apply to the weatherization program. Through this agreement, the department can electronically access information about an individual's wage and unemployment benefits directly by the use of social security numbers.

Social Security Numbers

The department does not require that applicants provide social security numbers for themselves and other household members. Without social security numbers, income eligibility can not be verified by comparing applicant information to the Department of Labor and Workforce Development and state income tax records. Our review of the HESWAP database revealed that 2,033 eligible applicants and household members did not provide social security numbers. In addition, there were several instances where social security numbers were inaccurate; including the use of a social security number of deceased individuals, the use of unissued social security numbers, and instances where the social security numbers for household members were consecutive numbers or one number different, which is highly unlikely.

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Household Definition

What constitutes a household member is not clearly defined in the program regulations. In addition, the number of household members reported on the application is not sufficiently documented or verified. This is important because an increase in the number of household members increases the eligibility income level. We noted several applications where the inclusion of some household members appeared questionable.

- One applicant included her daughter as a household member. Her daughter also applied for weatherization assistance but at a different address.
- An applicant listed a child with a social security number that was used for another applicant's child.
- A 39 year old applicant reported a 32 year old student living out of state (Massachusetts) as a household member.

HESWAP System

Through a grant from the Department of Community Affairs (department), New Jersey Community Action Association, Inc. (NJCAA) has contracted with Hancock Energy Software for an internet-based program. NJCAA is the liaison between the state and all of the community action agencies. The program is known as Hancock Energy Software Weatherization Assistance Program (HESWAP) and is used by the weatherization agencies in determining eligibility, monitoring the progress of the applications, and tracking expenditures.

Our review of the system revealed that there is a lack of necessary edits which has allowed ineligible applicants to be placed on the weatherization list. The system is designed to disapprove applicants who have a household income of more than 200 percent of the federal poverty level; however, the system is not accomplishing this. Other critical controls that have not been implemented are social security number edits which would require that a social security number be provided and would disallow the use of a duplicate social security number, an address edit which would stop the processing of an application if a duplicate address is detected, and a duplicate name edit which would also stop an application. Because these edits did not exist, we found the following problems in the October 22, 2009 HESWAP database relating to eligible applicants and household members.

- There are 2,033 blank social security numbers out of 14,634 individuals.
- There are 12 duplicate social security numbers for individuals identified on different applications.
- Eighty-one addresses have more than one application associated with them.

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We noted the following additional control weaknesses in the HESWAP system.

- Automatic approvals for Supplemental Security Income and Temporary Assistance for Needy Families are not linked between the various input screens, which allows conflicting information to be entered on these screens. As an example, the income screen shows a client receiving normal monthly social security income; however, the client information screen, which is used to prioritize clients, shows that the client is categorically eligible due to supplemental security income (SSI).
- The system should mirror the hard copy documents provided by the applicant. The applicant is required to show pay stubs for calculation of income. These stubs show employer information but that information is not transferred to the system records.
- The system should test the validity of social security numbers. We identified 380 questionable social security numbers. These included numbers for 168 deceased individuals, 88 that are invalid due to the number sequencing (for example, those starting with 000 or 9), and 124 numbers that have never been assigned.
- Data from training sessions has remained in the system and is included in the number of applicants.
- The system vendor has access to live data and the ability to manipulate this data.

The lack of these controls weakens the reliability of the database and may allow ineligible clients to be prioritized on the waiting list and receive unwarranted weatherization services.

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Cost Reports

Weatherization agencies have been reimbursed for unreasonable costs because of inadequate review of financial reports and lack of guidance from the state and federal governments. The federal government does not provide detailed guidance on allowable administrative costs for the weatherization grant. As stated on the Weatherization Assistance Program Technical Assistance Center website, “program guidance in this area does generally lack specificity and is not mandatory that every State use the guidance uniformly.” The United States Department of Energy issued Weatherization Program Notice 09-1B on March 12, 2009, which stated that funds are to be used “for authorized purposes, and instances of fraud, waste, error, and abuse are mitigated.” This puts the burden on the Department of Community Affairs (DCA) to provide guidance on allowable costs. According to the DCA contracts with the weatherization agencies, allowable administrative costs include administrative salaries, travel expenditures, consumable supplies, office space and equipment, postage, telephone fees, and insurance.

Section 1512 of the American Recovery and Reinvestment Act of 2009 (ARRA) requires the submission of reports that contain detailed information on projects and activities funded by the Recovery Act. These reports are to provide the public with an unprecedented level of transparency into how federal dollars are being spent and will help drive accountability for the timely, prudent, and effective spending of recovery dollars. Information included in these reports is submitted by the weatherization agencies through the DCA’s System for Administering Grants Electronically (SAGE). These reports include a Status Report, ARRA Job Creation and Retention report, and the Vendors For This Project report. The vendors report lists the vendors paid with ARRA funds during the specific quarter. The DCA staff performs a cursory review of the Financial Status Reports submitted by the weatherization agencies. They do not review the vendor report for unusual items. In May 2010, the DCA contracted with a CPA firm to conduct fiscal and programmatic monitoring services for the 23 weatherization agencies.

Allowable Costs

We visited four weatherization agencies receiving ARRA Weatherization funds in different areas of New Jersey. In addition, we reviewed various SAGE reports and examined supporting documentation for costs charged to the program. During our review of expenditures totaling \$613,577, we noted \$54,025 in unreasonable costs.

- One weatherization agency purchased two In-Dash GPS Navigation systems for \$1,499 each when a portable GPS for \$200 would be sufficient. The same agency purchased two unnecessary engine remote starters at the excessive prices of \$500 each.

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- During our review of reports on the SAGE system, we noted a weatherization agency was reimbursed \$17,327 during the period July 1, 2009 to September 30, 2009 for vehicles already purchased. The agency requested reimbursement for replacement costs of over \$1,000 per month for each of five vehicles. It claimed the replacement costs of all vehicles were over \$20,000, including a cost of \$27,970 for a 2001 Ford Wagon.
- As of June 2010, eight agencies have received a total of \$49,400 for auditing fees. We reviewed the two weatherization agencies with audit fees over \$10,000 and found that both agencies have been reimbursed for auditing fees totaling \$32,700, although no services had been performed.

Timing of Payments

The weatherization agencies received advance payments of 35 percent of their grant award. The purpose of the advance is to provide the grant recipient with the working capital needed to initiate the provision of grant activities and to meet the immediate cash-flow needs. In order to receive additional payments, weatherization agencies must report expenditures by submitting a Financial Status Report (FSR) through the SAGE system.

Before approval of the FSR, the DCA's monitors must approve all client files and a percentage of completed units in HESWAP for the FSR time period. The FSR must be approved and paid before the grantee can begin working on their next expense report. The U.S. Department of Energy (USDOE) Weatherization Program Notice 09-1B states various accountability objectives of the Recovery Act, which includes the following: "funds are awarded and distributed in a prompt, fair, and reasonable manner" and "projects funded under this Act avoid unnecessary delays and cost overruns." We performed a test of all FSRs for which a payment was received and noted that expense reports are reimbursed in an unreasonable time frame because of the lack of monitors' approvals of weatherized units. Since grantees cannot submit their next FSR until the current one has been fully processed, many payments have been delayed, thus causing ARRA Weatherization funds to be unspent.

Fourteen of the thirty-six FSRs were paid over 30 days after the final submission of the report, averaging 52 days and up to 115 days. As of June 2010, three additional FSRs were in process over 30 days after submission to the DCA. The lag times for these reports were 77, 145, and 173 days.

**DEPARTMENT OF COMMUNITY AFFAIRS
AMERICAN RECOVERY AND REINVESTMENT ACT
WEATHERIZATION ASSISTANCE PROGRAM
WEATHERIZATION AGENCIES**

Vehicle and Equipment Purchases

All vehicles and equipment over \$5,000 purchased with American Recovery and Reinvestment Act funds are required to be approved by the U.S. Department of Energy (USDOE) per Weatherization Program Notice 09-1B. The USDOE has established minimum information needed for their approval, including the grantee's name, where and how the vehicle will be used, whether this is a replacement or an expansion, copies of bid specifications and bids received, and a statement that the lowest bid will be selected.

The Department of Community Affairs (DCA) requires more detailed information through its contract with the grantees. The contract states that the title to the vehicle shall be taken in the name of the grantee, with the first lien to the State of New Jersey, Department of Community Affairs, Weatherization Assistance Program. The grantee must provide the copy of the registration with recorded lien to the DCA within ten days after registration of the vehicle.

We identified 18 requests for vehicles and equipment over \$5,000 by the weatherization agencies during our audit period. We found that the DCA has not enforced compliance with the regulations as evidenced by the following.

- One agency purchased a \$6,400 insulation machine and another purchased a thermal imager with an integrated digital camera for \$8,995 without the required USDOE approval. DCA staff has stated that if an agency purchases items over \$5,000 and they do not get an approval, the cost is not an allowable expense and they would not get reimbursed. We found that this is not enforced by the DCA and the above two items were reimbursed.
- Seven out of eighteen requests for vehicle and equipment purchases did not have USDOE approval documented. The approvals from the USDOE can be done electronically. We were advised by DCA staff that several of the approvals, which were sent electronically by the USDOE, were not printed out and were deleted from the computer.
- Required documentation was not submitted by the weatherization agencies. All vehicle approval requests did not have the required monthly cost of the vehicles if leased, the schedule of monthly maintenance, and the titles were not forwarded showing the DCA as the first lien holder.

Additional purchases were identified during our review of expenditures from the financial status reports. We noted one weatherization agency had purchased four vehicles that had no USDOE approval documentation. Also, the DCA was not the first lien holder on the vehicles.

**DEPARTMENT OF COMMUNITY AFFAIRS
AMERICAN RECOVERY AND REINVESTMENT ACT
WEATHERIZATION ASSISTANCE PROGRAM
WEATHERIZATION AGENCIES**

Inspections

Client files are not being properly maintained by the weatherization agencies or inspected by the Department of Community Affairs' (DCA) monitors. The DCA weatherization bulletins and the grant agreement between the DCA and the weatherization agencies require that certain forms be posted in the client files. We found that forms were missing, not properly completed, or missing signatures. In addition, the DCA monitors are required to physically inspect completed units per the weatherization grant, weatherization bulletins, and the DCA memoranda. We found that reimbursements were made without the proper documentation of reviews by the DCA monitors. Our review of the inspection requirement revealed the following.

- All client files must be inspected by the DCA monitors. We reviewed 60 files and found that 39 were incomplete in that forms and/or signatures were missing.
- The DCA monitors are required to perform a physical inspection of all completed units where the expenditure is less than \$800 for crew-based weatherization agencies and \$1,000 for contractor installations. We reviewed 22 units under this category and found the DCA monitors had inspected only 12.
- The DCA monitors are required to physically inspect a percentage of other completed units. This percentage ranges from five percent to 100 percent of the weatherized units. The DCA monitors had not inspected the required number of completed units in one of the eight weatherization agencies reviewed. This was a new agency and as such required inspection of all of their completed units. For the first quarter of calendar year 2010, this weatherization agency completed eleven units, but the DCA monitor only inspected four.

Contractor Wages

The state plan requires that all contractors performing weatherization work must pay their employees a living wage currently estimated to be \$17.40 per hour plus benefits or the federal prevailing wage, whichever is higher, and must provide quality, affordable, employer-sponsored health insurance to its employees. In addition, the Department of Community Affairs (DCA) was required to adopt a policy establishing the minimum level of compensation, benefits, and training required of all sub-grantees.

We found that weatherization agencies have paid their in-house crews the required wages, but many contractors are not complying with the requirement. We tested wages for 54 employees working for 10 contractors and found that the wages paid for 29 employees did not meet the minimum requirement of the grant. Hourly wage differences averaged \$2.33 less than the minimum. We can not comment on the requirement of providing quality, affordable, employer-sponsored health insurance as the DCA has not provided guidance or a definition for this requirement.

**DEPARTMENT OF COMMUNITY AFFAIRS
AMERICAN RECOVERY AND REINVESTMENT ACT
WEATHERIZATION ASSISTANCE PROGRAM
WEATHERIZATION AGENCIES**

Construction Costs

Weatherization agencies have not followed the Department of Community Affairs (DCA) guidance, Weatherization Bulletin 202, which requires construction costs to be documented in the client file. We reviewed 60 files that had construction costs of \$132,000 and found that weatherization costs for 31 files, valued at \$69,000, could not be verified. Additionally, we reviewed material and labor costs on the HESWAP system for items common to all weatherization agencies and found that unit costs had wide variations. One weatherization agency charged the program \$1.50 for light bulbs, but another weatherization agency charged the program \$27. A weatherization agency charged \$10 for a clothes dryer vent while another weatherization agency charged over \$78 and an additional \$48 for installation. Other material cost ranges were low-flow shower heads from \$3 to \$60 with an additional \$40 for installation, air conditioning covers from \$17 to \$50 with an additional \$50 for installation, and smoke detectors from \$10 to \$54 with an additional \$20 for installation. Four-year refrigerator protection plans are under a statewide contract which costs \$85, but some agencies are charging as much as \$131. We also noted that a weatherization agency charged an energy program \$22 for a carbon monoxide detector and within the same month also charged the weatherization program \$75.



OTHER ISSUES

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
MANAGED CARE PROVIDER NETWORKS**

Dental Providers and Specialist Networks

Section 4.8.1 of the New Jersey managed care contract states that Managed Care Organizations (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 enough participating providers that are geographically accessible to enrollees and that there are a sufficient number of providers available in each area of specialty practice to meet the needs of enrollees.

As part of the contract requirements, MCOs submit network files of general dentists to the Department of Human Services, Division of Medical Assistance and Health Services (division) quarterly. The MCO must demonstrate its compliance with the division’s provider network requirements and how it will ensure enrollees access to all services covered under the contract. MCOs are required to prepare a separate geographical accessibility analysis for each county using Medicaid/FamilyCare eligibility data files. These reports show the percentage of beneficiaries who have access to dental providers at various distances. We selected three counties: Camden, Ocean, and Passaic for review. We reviewed the 2008 geographic accessibility (Geo Access) reports for general dentists in these counties. These reports did not provide detailed listings of dental providers to support the totals. After obtaining additional information from the MCOs, we found significant errors in the number of general dentists reported by four of the five MCO networks. For these four MCOs, there was an overall average of 32 percent (193 of 601) fewer dentists serving Camden and Ocean counties and 19 percent (72 of 389) fewer in Passaic County than what was reported in the Geo Access reports. Two MCOs had overstated the number of dentists in their networks by as much as 40 percent (51 of 128) in Camden and Ocean counties. Our review identified the following errors. Primary care dentists were listed more than once, dental specialists were counted as primary care dentists, and dentists who had more than one office location were improperly counted multiple times.

In a separate test of Ocean County dental providers listed on MCO websites, we found that 40 percent (86 of 217) of the providers tested were not providing dental services at the location listed. Additionally, we found 25 percent (31 of 124) of the remaining provider locations tested were not accepting new patients. The division’s contract requires MCOs to maintain and update their web-based provider directories every 30 days.

Our review of MCO websites indicate that beneficiaries may still encounter difficulties when selecting a MCO based on the provider network information posted on their website. At the time of our testing, two MCOs did not have their network specialists listed on their websites. In addition, we examined website resources and found that some of the information provided was difficult to access and use in selecting a MCO. For example, the websites use different formats for information about their providers. Some provide electronic lists while others use search engines requiring beneficiaries to conduct queries of specific providers or specialties. The search engines also may vary. Some require beneficiaries to input zip codes while others require a

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
MANAGED CARE PROVIDER NETWORKS**

search by provider name or specialty type. As a result, it can be difficult and confusing for beneficiaries to select a health care plan, which can be of particular importance to beneficiaries who need specialty care to treat chronic conditions.

Our review of provider directories in six counties (Atlantic, Camden, Cape May, Essex, Hudson and Passaic) indicated a number of listed specialty providers were not available to serve beneficiaries. We obtained the provider directories from websites for three MCOs and attempted to contact a sample of each of the listed endocrinologists, otolaryngologists (commonly known as ear, nose, and throat specialists, or ENTs), dermatologists, and colorectal surgeons to verify their service location, whether they were seeing Medicaid beneficiaries at that location, and whether they were accepting new patients. Our review found the following:

Specialist	Not at the location listed	Not seeing Medicaid patients	Not accepting new patients
Colorectal Surgeon	15%	26%	0%
Dermatologist	54%	12%	5%
Endocrinologist	25%	32%	11%
Ear, Nose, and Throat	21%	21%	5%

The above noted exceptions have a cumulative effect on physician availability. For example, of the 138 ENTs tested for the three MCOs, 29 doctors did not service the location listed, 23 were not seeing Medicaid patients, and four were not seeing new patients. As a result, 82 of the 138 ENTs tested would see new Medicaid patients at the locations listed.

The problems that the MCOs are having with maintaining accurate provider lists with sufficient information about provider accessibility is probably not restricted to dentists and specialists. Although our review and testing focused on specialists, our findings may also be applicable to primary care physicians as well.

We recognize the division maintains a centralized database for receiving and tracking complaints. Grievance reports provide aggregate information about the total number of grievances that a plan receives. The reports identify the number of complaints specifically related to problems with accessing primary or specialty health care professionals. While this oversight activity may assist the division concerning network adequacy and accessibility, beneficiaries experiencing access problems may choose not to file a complaint.

The division relies on MCOs reporting accurate information on their provider networks. Without accurate information the division can not properly monitor these networks for deficiencies. Failure to monitor networks may result in “phantom networks”, where specific doctors are not at the location listed or are not accepting new patients.

**DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION**

Tax Amnesty

A tax amnesty program is a limited time opportunity that allows taxpayers to pay taxes owed and to file late returns without penalty and with reduced interest. For the period May 4 through June 15, 2009, legislation allowed all penalties and half of the interest owed by eligible taxpayers to be waived; however an additional five-percent penalty was to be imposed on all outstanding tax amounts after the program expired. Tax amnesty was available to individuals and businesses that owed taxes for tax returns due on or after January 1, 2002 and before February 1, 2009. This is the fourth tax amnesty program instituted by the State of New Jersey since 1987.

A complete assessment of the tax amnesty program cannot be performed because of the lack of reliable system information. Per *Control Objectives for Information and Related Technology* (CobIT), section AI 2.3, Application Control and Auditability, an organization needs to implement automated application controls such that processing is accurate, complete, timely, authorized, and auditable. The use of various protocols for the processing of amnesty collections and abatements and inherent limitations of the systems' accounting for these transactions inhibited obtaining complete and accurate information on this program.

Reconciliations

The Department of the Treasury, Division of Taxation (division) provided us with an amnesty revenue summary report by tax type totaling \$746 million for the program. This information was compiled by the division through data provided by the Department of the Treasury, Office of Information Technology (OIT) and other internal sources. The OIT provided amnesty collection data for electronic payment sources. Manual transactions that were collected by applicable units within the division were sourced to the summary report. During our review of this report we made several unsuccessful attempts to reconcile this information to the Generic Tax System (GENTS) and other sources. Our reconciliation was \$52 million less than the division's summary report primarily related to GENTS. GENTS should contain the historical and current information for most taxpayers. It should be noted that the division's collection report total of \$746 million agrees with Division of Revenue's (DOR) cash reconciliation. DOR reconciled its amnesty collections to its Cash Receipt Accounting System totals, but the individual transaction detail was unavailable for our use.

Amnesty Abatements

The division was unable to provide and we were unable to determine total abatements relating to the amnesty program. Abatement is the amount of interest and penalty that is waived for each taxpayer. Without accurate abatement data, the underlying cost of the program cannot be determined. Our audit disclosed that the systems associated with the recording of the abatement amounts, GENTS and the Taxpayer Unremitted Liability Inventory Plotting System (TULIPS), and its users, were unable to properly process transactions in accordance with the specific requirements necessary to allow for the determination of total abatement amounts.

**DEPARTMENT OF THE TREASURY
DIVISION OF TAXATION**

Conference and Appeals Backlog

The Conference and Appeals Branch's objective is to provide a timely and final administrative review to taxpayers who protest or appeal determinations issued by the Division of Taxation. The branch is not meeting its objective of timely reviews. As of April 2010, there was a backlog of 1,300 cases, including approximately 500 that were unassigned. Per management, the average wait time for a case to be assigned is one and a half years, although cases have gone unassigned for up to three years. The large backlog of cases delays revenue collections. Also, taxpayers' perception of the division is damaged by the untimely response times. According to the Conference and Appeals Branch, the backlog occurs because of the unique case by case nature of the work. Employees are assigned cases that are fact and time intensive. Recently, the division introduced an initiative to address the backlog by reallocating resources to increase the number of staff available to hold conferences. At this time it is too early to determine how effective the initiative is working, but management is optimistic the backlog will be reduced by half within the first year.

**DEPARTMENT OF TRANSPORTATION
BRIDGE MAINTENANCE ACTIVITIES**

Consultant Bridge Inspections

The National Bridge Inspection Standards (NBIS) require that all bridges greater than twenty feet in length be inspected biannually. The Department of Transportation (department) is required to ensure the inspection of state-owned bridges. After a failed county inspection pilot program in fiscal year 2008, the department reacquired the responsibility to oversee the inspections of county-owned bridges. Results of all NBIS bridge inspections are reported to the Federal Highway Administration (FHWA).

During fiscal year 2009, the department’s Bureau of Structural Engineering oversaw 3,767 bridge inspections required by NBIS. Less than 13 percent of these inspections were conducted by the department’s seven in-house inspection teams. In order to complete the bridge inspections for fiscal year 2009, the department contracted with 38 consultant inspection teams. Selection of consultant bridge inspectors is made by the department’s Consultant Selection Committee and is based on qualifications alone. The department’s Professional Services Procurement unit maintains a complex rating system that ranks qualified consultants, which is used to make responsible recommendations to the selection committee.

The FHWA requires that five percent of each bridge inspection teams’ projects be independently field verified subsequent to the final inspection report. This is done to determine the validity of the inspection results. The department voluntarily increased this requirement to ten percent. Adjustments and corrections identified during field verifications are expected to impact the consultant’s ratings in a subsequent procurement cycle.

In calendar year 2009 the department met its self-imposed requirement to field verify ten percent of the inspections performed in calendar year 2008. We reviewed all of the field verification reports and the results indicate that in-house inspections are more accurate and more successful at identifying priority repairs.

2009 Field Verifications of Inspections

	Consultants	In-House
Total Verified	135	37
Priorities Missed	9 *	1 **
Technical Report Changes	43	2

* One priority missed was an emergency that caused immediate closure of the bridge

** A Priority 1 was missed due to heavy vegetation at the time of inspection

DEPARTMENT OF TRANSPORTATION BRIDGE MAINTENANCE ACTIVITIES

We found that the results of the field verifications do not have a timely effect on the consultants' ratings. We reviewed the ratings of the consultants before and after field verifications that identified missed priority repairs. We found two of six of the consultants' ratings were not adjusted for the procurement cycle subsequent to the identified missed priority repair. One of these consultants was selected again in the procurement cycle following an identified missed priority. As of August 31, 2010, the next procurement cycle ratings were not yet available to determine if these consultants' ratings were adjusted.

The FHWA requires the department to submit an annual review each December. This report includes field verification data. We found that the department is conducting the field verifications just in time for the annual report. There is no policy indicating a deadline for field verifications to be performed. Seventy percent of the department's field verifications were performed in November. Although it is reasonable to expect that some field verifications would be performed close to the report date, field verifications should be spread throughout the year to provide more timely results.

In 2003 the department's Division of Budget completed a study comparing the cost effectiveness of conducting bridge inspections using in-house staff versus consultants. The division updated this study in 2007 and concluded that on average it is 37 percent more cost effective to perform bridge inspections using in-house staff. The report also stated that there was a 25 percent decline in staff from 1994 to 2006. We found an additional decrease in staff of three engineers, or eight percent, from 2008 to 2009. Because of the work load on the Bureau of Structural Engineering, reduction in staff, and the ongoing state hiring freeze, an increase in the percentage of bridges inspected by in-house staff is currently not reasonable.

Priority Repairs

Department procedures require that emergency and priority repairs be started within the specified time frames after notification of the needed repair as follows:

Type	Days
Emergency	3 to 14
Priority 1	30
Priority 2	90

The department's Bureau of Structural Engineering (Structural Engineering) maintains a log for all types of bridge repairs reported. The means by which repairs are reported vary, but they come primarily from the annual or biannual inspection report. The department's Bureau of Maintenance and Operations (Maintenance and Operations) is responsible for ensuring repairs are made; however, they do not have access to the repair log used by Structural Engineering. Instead, Maintenance and Operations relies on memos sent via email from Structural Engineering when a repair need arises. These memos are used to update a separate repair log maintained by Maintenance and Operations. When the repairs are completed, Maintenance and Operations will update their repair log and notify Structural Engineering. However, a start date is

DEPARTMENT OF TRANSPORTATION BRIDGE MAINTENANCE ACTIVITIES

not included with the information forwarded to Structural Engineering. Therefore, management is unable to assess compliance with the established time frames.

The use of two separate systems to track the status of repairs has resulted in inaccurate and incomplete records, and has been documented by the department's Office of Internal Audit and FHWA as inefficient. The department's Applications Development and Systems Support Bureau approved a project in April 2008 to implement an intranet based application to allow for a shared tracking of emergency and priority repairs. The system had not been put into operation as of August 31, 2010.

We obtained the Structural Engineering cumulative emergency and priority repair log from May 2008 to February 2010. The log identified 64 Emergency, 365 Priority 1, and 401 Priority 2 type repairs. We sampled each type of repair from this log. We found 47 percent of Priority 1 and 50 percent of Priority 2 repairs exceeded the specified time frame to begin corrective measures. We also found 13 percent of Priority 1 and 10 percent of Priority 2 repairs that did not have start dates recorded. We identified inaccuracies in the priority repair log, which diminishes its effectiveness as a management tool. Six percent of emergency, thirty percent of Priority 1, and twenty percent of Priority 2 repairs had incomplete or inaccurate data in the repair log. These inaccuracies are the result of a breakdown in or lack of communication between the two bureaus.

Construction Orders

The department developed the Construction Order Tracking System (COTS). COTS was expected to produce exception and status reports relating to construction orders; identify potential problems; track trends that could have an impact on the program's cash flow position; and allow management to identify areas for which work improvements or procedural changes could be implemented to reduce the number of changes required on future projects.

Our report dated April 27, 2006 noted that management was not fully utilizing COTS and a backlog in data entry existed. Management responded that the system was outdated and that they intended to replace it with SiteManager in the Fall of 2007.

Data entry into COTS remains a required step in the department's procedural manual. However, we observed that the department stopped using the system entirely around the time that SiteManager was expected to go on-line. Implementation of SiteManager has been continually delayed because of a request to conduct a data cleanup, additional partnerships created that were expected to provide enhancements to SiteManager, required customizations, lack of staff dedicated to the project, licensing issues, and retirement of key personnel who were deeply involved in the project.

Management has not provided any guidance for its three regions to track construction orders. As a result, each region has developed their own method of tracking and reviewing construction orders. We retrieved and reviewed the logs from the North, Central, and South regions and found a lack of consistency, and the logs presently used do not provide the level of information that would have been collected in COTS. The regions are tracking the information primarily to ensure that their construction order requests are processed and authorized timely.

**OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2010**

<u>REPORT</u>	<u>TYPES OF FINDINGS</u>			
	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY/ EFFICIENCY</u>	<u>NONE</u>
Casino Control Fund		Opinion Report		X
Chief Executive's Office		X		
Department of Community Affairs				
American Recovery and Reinvestment Act Weatherization Assistance Program Eligibility		X		
Weatherization Agencies	X	X	X	
Urban Enterprise Zone Program		X	X	
Department of Health and Senior Services				
Pharmaceutical Assistance to the Aged and Disabled, Senior Gold, Lifeline, and Hearing Aid Assistance to The Aged and Disabled Programs		X	X	
Department of Human Services				
Cost Allocation Plans				X
Division of Developmental Disabilities Green Brook Regional Center		X		
Vineland Developmental Center	X	X	X	
Division of Medical Assistance and Health Services				
Managed Care Identification Cards		X		
Managed Care Provider Networks		X		
Termination of Benefits for Deceased Medicaid Recipients				X
Department of Labor and Public Safety				
Attorney General's Law Enforcement Forfeiture Account			X	
Division of Criminal Justice and Office of the State Medical Examiner	X	X	X	
Department of the Treasury				
Division of Taxation		X		
Division of Taxation – Rebate Eligibility			X	
Office of Administrative Law	X			
Department of the Transportation				
Bridge Maintenance Activities		X		
Elizabeth Board of Education				X

**OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2010**

<u>REPORT</u>	<u>TYPES OF FINDINGS</u>			
	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY/ EFFICIENCY</u>	<u>NONE</u>
Judiciary				
Administrative Office of the Courts				
Office of Management and Administrative Services	X	X	X	
New Jersey Comprehensive Annual Financial Report				
For the Fiscal Year Ended June 30, 2009		Opinion Report		
For the Fiscal Year Ended June 30, 2010		Opinion Report		
New Jersey Judiciary				
Information Technology		X		
New Jersey Schools Development Authority				
		X		
New Jersey Schools and Exposition Authority				
				X
Office of Information Technology				
Data Center		X		
Pinelands Commission				
		Opinion Report		
		Single Audit Report		X
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		X		
Town of Phillipsburg School District				
		X	X	
Township of Lakewood School District				
	X	X	X	
Trenton Board of Education				
	X	X	X	