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

For the Calendar Year Ended December 31,



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**Richard L. Fair
State Auditor**

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New Jersey State Legislature

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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 2008. 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 35 reports during 2008 which identified \$38.9 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.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells
Assistant State Auditor
February 13, 2009

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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 September 26, 1989, Mr. Richard L. Fair, CPA, was appointed State Auditor Designate and was confirmed by a joint session of the Legislature on March 15, 1990. He retired on June 30, 2008. As of December 31, 2008, no successor had been appointed.

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 2008 we identified \$38.9 million in new cost savings or revenue enhancements. The schedule of cost savings is presented on page 3. Also, the office provided additional cost savings of \$18,000 by providing the required NJ Law and Ethics Course to over 90 state employee certified public accountants free of charge. The office also trained over 190 participants from other governmental agencies in the areas of ethics compliance requirements, IT security and identity theft, and audio conferences in various topics for no charge. In addition, our compliance review on findings related to audit reports issued during the fiscal year ended June 30, 2007 disclosed that 90 percent of the recommendations have been complied with or management has taken steps to achieve compliance.

PROFESSIONAL STANDARDS

The Office of the State Auditor's audits are performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that our operations be reviewed every three years. In 2008, the National State Auditors Association conducted a review of our system of quality control. The unqualified report received from this review is presented on page 4.

OFFICE OF LEGISLATIVE SERVICES OFFICE OF THE STATE AUDITOR SCHEDULE OF COST SAVINGS AND REVENUE ENHANCEMENTS REPORTS ISSUED DURING CALENDAR YEAR 2008
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<u>REPORT</u>	<u>COST SAVINGS/ REVENUE ENHANCEMENTS</u> (In Thousands)
Department of Corrections	
East Jersey State Prison	\$ 27
Department of Human Services	
Division of Medical Assistance and Health Services	
Durable Medical Equipment and Supplies	12,023
Health Benefits Coordinator Contract for NJ FamilyCare Program	4,600
Medical Transportation Services	1,003
Payments for Pharmaceutical Dispensing Fees of Nursing Home Residents	10,900
Department of Law and Public Safety	
Division of State Police	194
Division on Civil Rights, Division of Highway Traffic Safety, Division of Alcoholic Beverage Control, New Jersey Racing Commission	647
Department of the Treasury	
Division of Purchase and Property	
Distribution and Support Services	374
Division of Taxation	
Rebate Programs	7,910
Rowan University	295
Rutgers, The State University of New Jersey	130
The Richard Stockton College of New Jersey	837

<i>Total Cost Savings and Revenue Enhancements</i>	<u><u>\$38,940</u></u>



National State Auditors Association

June 13, 2008

Mr. Richard L. Fair
New Jersey State Auditor
New Jersey Office of the State Auditor
125 South Warren Street
Trenton, NJ 08625

Dear Mr. Fair:

We have reviewed the system of quality control of State of New Jersey Office of the State Auditor (the office) in effect for the period May 1, 2007 through April 30, 2008. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system, and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with government auditing standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of the State of New Jersey Office of the State Auditor in effect for the period May 1, 2007 to April 30, 2008 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

As is customary in a peer review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the opinion expressed in this report.

Frank Buffington, CPA, CIA, CGAP, CGFM
National State Auditors Association
External Peer Review Team

Joseph Stepp, CPA, CGFM
National State Auditors Association
External Peer Review Team

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 197 funds and component units which had a total asset value of \$178 billion at June 30, 2008 based on full accrual accounting. Three other financial audits were issued in calendar year 2008.

Audits of Agencies

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 department-wide basis because of their size and complexity. We performed 26 of these audits in calendar year 2008. These audits encompassed \$16.6 billion and \$1.0 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 2008 we reported on statewide data privacy, a management information system for entitlement payments, a data warehouse, and an agency network.

During the past year the Office also started 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 which has a year-end general fund deficit and meets one other criteria of this act. We audited one such school district in calendar year 2008.

AUDIT REPORTS

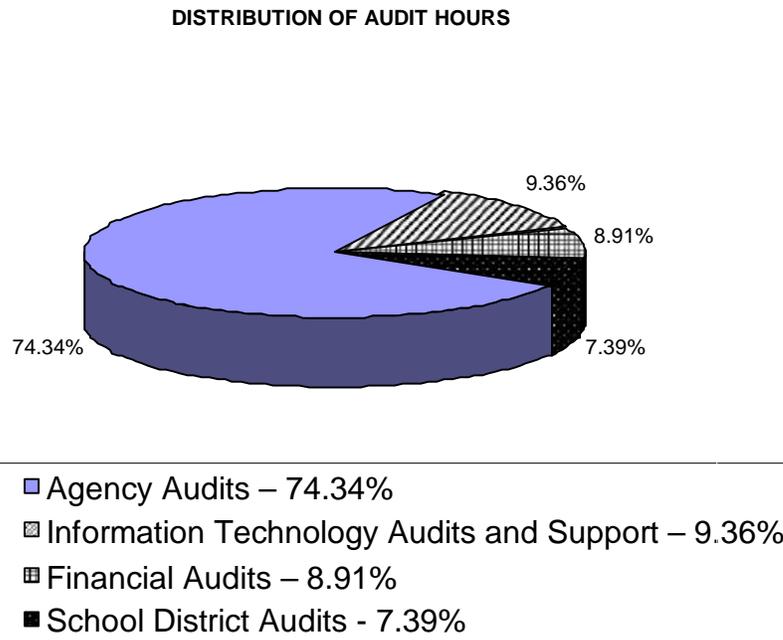
Legislative Requests

From time to time the Legislative Services Commission 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.

AUDIT REPORTS

DISTRIBUTION OF AUDIT HOURS

The distribution of audit hours used in performing audits during calendar year 2008 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 objective audits are intended to provide accountability and improvement of government operations to the legislature. All reports issued are discussed with agency officials prior to finalizing the report. Modifications to the draft report are made if warranted. Agency 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 six 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-two staff members, 58 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 40 continuing professional education credits annually 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 six active committees staffed by individuals in various titles to provide guidance in the areas of information technology, 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.

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

ORGANIZATION

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, 2008**

STATE AUDITOR

Richard L. Fair, CPA, CGFM (retired)
Evelyn T. Richardson, Administrative Assistant

ASSISTANT STATE AUDITOR

Stephen M. Eells, CPA
Jean Horner, Secretary

ASSISTANT STATE AUDITOR

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Patrick Whalin
Kurt Zadworney

ADMINISTRATIVE STAFF

Pamela Puca, Principal Audit Processor
Anthony Arena, Support Services Assistant Robyn Boyer, Support Services Assistant

**ACCOMPLISHMENTS
AND RESULTS**

ACCOMPLISHMENTS AND RESULTS

SUMMARY

This section highlights six of the more significant audits issued during the past year which individually contained cost savings/revenue enhancements greater than \$800,000 and collectively totaled \$37.3 million. Information on these reports is presented on pages 15 through 31. The office issued six other reports with individual cost savings totaling \$1.6 million. This section also contains the significant findings from 14 audits on pages 33 through 52 which address health benefits, information technology, procurement, university travel expense and other issues.

All reports issued in calendar year 2008 are identified on a schedule on pages 53 to 54 and are available for review on our internet website.

**SIGNIFICANT
COST SAVINGS/REVENUE
ENHANCEMENTS**

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
DURABLE MEDICAL EQUIPMENT AND SUPPLIES**

Oxygen Concentrators and Incontinence Briefs

Opportunities exist to reduce the costs of New Jersey's Medicaid program by obtaining competitively bid term contracts or by reducing the maximum allowable fees paid for oxygen concentrators and related services and incontinence supplies.

Currently, a recipient may rent an oxygen concentrator from any vendor for the fixed rental rate of \$250 per month. This maximum allowable fee includes periodic maintenance and emergency service, and is the highest of the 28 states we reviewed. There are approximately 3,000 oxygen concentrators billed each month to the New Jersey Medicaid program at a cost of \$3.4 million in fiscal year 2007. Our review of other states found Medicaid reimbursement rates ranging from \$65.45 to \$230.17 per month for equipment and services comparable to those that New Jersey Medicaid provides. Additionally, one state procured a term contract for its oxygen concentrator services with rates ranging between \$40 and \$64 depending upon the region of the state.

The Department of Military and Veterans Affairs, Menlo Park Memorial Home in Edison also rented oxygen concentrators utilizing a term contract. In fiscal year 2005, the monthly rental fee was \$73.40 for the equipment and maintenance. The use of term contracts for oxygen concentrators may achieve significant cost savings. Using Menlo Park Memorial Home's contract rate, the Division of Medical Assistance and Health Services (division) could achieve an annual federal and state savings of \$1.4 million.

The division also has opportunities to reduce the costs for adult incontinence briefs. The division currently pays from \$.70 to \$.90 per brief. Currently, the state has a term contract for adult disposable briefs for individuals in state institutions. The contract purchase price for adult briefs range from \$.18 to \$.29 depending on the size of the brief. Our review noted that had the division set Medicaid rates based on the state contract for incontinence briefs, the Medicaid program could have realized an annual federal and state cost savings of \$5.3 million.

During our on-site visits to providers, we found one provider had purchased incontinence briefs from a major warehouse discount store. The provider paid \$.42 per unit for adult large disposable briefs, then submitted claims and was reimbursed \$.70 per unit by the New Jersey Medicaid program.

Durable Medical Equipment and Supply Claims for Nursing Home Residents

The New Jersey Medicaid program does not cover routinely used medical supplies, durable medical equipment (DME), and other therapeutic equipment for residents of a nursing home. Pursuant to N.J.A.C. 8:85-2.15, such items are considered part of the nursing facilities' responsibility for the care and treatment of its residents and are considered part of the nursing facilities' cost. These costs should not be billed directly to the program by the supplier.

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
DURABLE MEDICAL EQUIPMENT AND SUPPLIES**

Our review found that 363 DME providers improperly billed the Medicaid program \$2.1 million during our audit period for routine medical equipment and supplies that should have been provided by the nursing facility. Routine items such as enteral feeding formulas, incontinence briefs, hospital beds, and standard wheelchairs should be the responsibility of the nursing facility.

The DME providers should have sought reimbursement for these routine items directly from the nursing care facility, rather than from the Medicaid program. The improper payments occurred because the state's Medicaid Management Information System (MMIS) lacked the necessary edits and controls to deny such claims.

Inadequate Audits and Program Monitoring

There are currently 1,351 durable medical equipment providers enrolled to participate in the New Jersey Medicaid program. The division contracts with a company to perform desk audits and on-site reviews. The on-site reviews, however are announced and the provider is told in advance which beneficiaries' prescriptions and claims to have available for review.

The division's Bureau of Program Integrity (BPI) is also charged with the responsibility of monitoring Medicaid providers. Drastic reductions in the staff positions at BPI from 53 in 2004 to 26 currently, coupled with a policy of not pursuing provider fraud or abuse cases under a \$50,000 threshold, has hindered the unit from detecting, investigating, and recovering funds from Medicaid fraud or misuse.

During our audit and field visits we found the following problems which emphasize the need for increased monitoring efforts over providers.

- ? During the six-month period from January to June 2007, a provider submitted \$30,000 more in claims for incontinence briefs than the provider had available. Although the provider billed the Medicaid program for approximately 48,000 adult incontinence briefs, documents support the purchase of only 10,000 briefs and the facility had no inventory storage.
- ? A similar review of a second provider revealed a lack of support for the purchases of adult briefs, disposable under pads, and compression stockings. The provider submitted claims with quantities approximately two, three, and five times greater, respectively, than the amounts supported by the provider's purchase records. The amount paid for these unsupported quantities was approximately \$93,000, which is roughly half of the total amount paid to the provider.
- ? The invoices of the above providers indicated significant quantities of panty liners had been purchased. Although there is a procedure code for this item, neither provider had any claims with this code in fiscal year 2007. We suspect the items may have been substituted and billed as other items with a higher reimbursement rate.

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
DURABLE MEDICAL EQUIPMENT AND SUPPLIES**

The above issues have been referred to the Division of Criminal Justice for further investigation.

Additionally, over 1,000 beneficiaries received more than one blood pressure monitor within our audit period. We found numerous instances where the beneficiary received as many as three. Many blood pressure monitors come with a manufacturer's five-year or life-time warranty. Often major drug store chains will replace old or defective blood pressure monitors at no cost. The division should have denied these claims totaling \$100,000 for the additional monitors.

Durable Medical Equipment Recycling Contract

The division entered into a contract with a medical equipment recycling vendor in January 2004 to recycle Medicaid purchased durable medical equipment (DME). According to the contract, the vendor was to be paid a fee for the tracking, retrieving, sanitizing, and shelving of state-owned DME.

Our review found the contractor had submitted claims for the recycling of newly purchased equipment delivered to beneficiaries. The contractor received the entire fee for only the tagging of new equipment. The division knew about this practice and authorized the vendor to submit claims and receive the entire payment for services that were only partially rendered. Services for the pickup, sanitizing, refurbishing, and storing of certain equipment were never rendered. In fiscal year 2006, the contract for the recycling program ended. In March 2007, the division's records relating to the contract were subpoenaed and were being investigated by the Division of Criminal Justice.

Based on our analysis of claims paid to the vendor, we estimate \$3 million may be owed back to the state and federal governments by the vendor for services paid but never rendered.

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
HEALTH BENEFITS COORDINATOR CONTRACT FOR THE NJ FAMILYCARE
PROGRAM**

NJ FamilyCare Program

NJ FamilyCare (NJFC) is a federal and state funded health insurance program created to help New Jersey's uninsured children and certain low-income parents and guardians have affordable health coverage. NJFC provides no cost or low-cost health insurance through managed care enrollment to uninsured parents and children with incomes up to 350 percent of the federal poverty level. Applicants become eligible for one of four NJFC plans identified as Plans A, B, C, and D dependent upon the family's income relative to the federal poverty level.

Health Benefits Coordinator Contract

The Department of Human Services contracts with a vendor to screen and process NJFC applications, make determinations of program eligibility, assess and collect premiums, provide outreach, provide marketing and education, and conduct and maintain enrollment with contracting managed care organizations in accordance with the program requirements of the Division of Medical Assistance and Health Services (division). The contract is for the period January 1, 2005 to June 30, 2008 which included a six month transition period from January 1, 2005 to June 30, 2005.

In October 2004, the division awarded the contract to the current vendor. Recognizing that the monitoring and administration of the previous contract lacked the tools and staff necessary to ensure compliance and proper contract performance, the division created the Office of Contract Compliance which was responsible for the oversight of the transition from the previous vendor as well as the administration and monitoring of the contract with the current vendor.

Unreported Income

Some beneficiaries are underreporting income on their NJ FamilyCare (NJFC) application such as income from self-employment and rentals, interest, and dividends. NJFC applicants are required to list all jobs and employers for each working person in their household as well as other non-work income on their application and are asked to send in proof of all income. The vendor reviews the documentation submitted and screens applicants against the state's wage, disability, and unemployment databases to verify the income reported. These databases do not include income from self-employment and rentals, interest, or dividends. Although beneficiaries authorize the Division of Taxation to release their tax returns to the NJFC program when signing their application, the division does not currently perform a computer match of all beneficiaries with state tax files.

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
HEALTH BENEFITS COORDINATOR CONTRACT FOR THE NJ FAMILYCARE
PROGRAM**

A computer match of all 86,600 cases with eligible participants as of April 2007 with state tax files resulted in 60,800 cases with at least one household member that filed a 2006 state tax return. We identified 6,781 unique cases with \$10,000 or more in self-employment income on their 2006 state tax return. A test of 70 of these cases disclosed that 21 failed to indicate that they were self-employed on their NJFC application. Based on the income reported on their tax returns, 18 of these 21 cases appeared ineligible and two appeared to be enrolled in the wrong plan. In three of these cases, participants were determined eligible in 2006 because they failed to report self-employment incomes of \$295,000, \$186,000, and \$177,700 per their 2006 state tax returns.

The same computer match identified 873 cases with \$85,000 or more in gross income reported on their 2006 state tax return. A test of 24 of these cases disclosed that five had either self-employment income, rental income, interest income, or dividend income that they failed to report on their application. Based on their tax returns, four of the five cases appeared ineligible and one appeared to be enrolled in the wrong plan. One case had eligible participants throughout 2006 despite unreported dividends of \$137,000 and interest of \$42,000 per their 2006 state tax return. Eligibility for the case continued despite the beneficiary failing to respond to the vendor's request for tax returns.

The above test of 24 cases also disclosed that 15 had net gains of more than \$100,000 on their 2006 state tax return with three having more than \$700,000. Additional analysis identified 441 cases with eligible participants as of April 2007 with net gains of \$10,000 or more on their 2006 state tax return. Sixty-five of those cases had a net gain of more than \$100,000 while the median net gain was \$34,000. Without access to a computer match against state tax returns, an unreported net gain would most likely go undetected. In addition, program regulations are unclear and do not provide sufficient guidance on how a net gain should be considered when determining eligibility. Program regulations should be changed to provide the vendor with better guidance on how to consider net gains when determining eligibility.

Although the vendor followed program regulations when verifying income, it appears that regulations that were intended to simplify the application process have made it easier for a beneficiary to underreport income. The addition of a post-enrollment and a periodic computer match of beneficiaries with state tax returns would assist the division in identifying unreported income.

Premiums Owed by Disenrolled Beneficiaries

As of August 2007, a total of \$4 million in premiums involving 16,300 disenrolled cases was owed to the division. These cases involved terminations for failing to pay their premiums for an extended period of time, failing to respond to repeated requests for missing information, or failing to submit a renewal application. The average amount owed per case was \$247 with approximately 11,200 cases owing less than \$250 and 487 cases owing \$1,000 or more.

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PROGRAM**

Subsequent analysis disclosed that premiums owed by disenrolled cases increased to \$4.6 million as of January 2008 with the number of cases increasing to 19,100. Once a case is disenrolled, the division makes no further collection efforts.

Treasury Circular Letter 06-03-OMB requires that non-tax debt be transferred to the Department of the Treasury, Division of Revenue (DOR) for further collection efforts. The Division of Medical Assistance and Health Services have not yet turned over records to the DOR.

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
MEDICAL TRANSPORTATION SERVICES**

Post Payment Review

Various units within the Department of Human Services and the Division of Medical Assistance and Health Services (division) perform limited post-payment reviews of transportation claims and the supporting documentation maintained by transportation providers. These reviews usually result from statistical analysis of claims or from complaints suggesting that there may be a problem with a particular provider. Our review of sample transportation claims revealed exceptions that suggest more frequent reviews and more aggressive follow up of audit findings are needed.

Required Transportation Certification Information

Transportation certifications are not submitted with the Medicaid claim, but must be completed and maintained by the transportation provider pending possible post-payment review. The Transportation Services Manual (NJAC 10:50-1.7) and the Fiscal Agent Billing Supplement set forth the information that must be included on the transportation certifications. Omission of any of this required information from the transportation certifications would make the payments subject to recoupment. We reviewed 250 transportation certifications completed by five sampled providers and found that each document failed to include at least one category of required information. Some items such as medical provider phone number (235 exceptions) and medical provider Medicaid number (229 exceptions) were missing from most documents. Other categories of missing information included beneficiary condition (68 exceptions), medical provider address (60 exceptions), medical provider representative name (59 exceptions), beneficiary address (39 exceptions), and medical provider name (36 exceptions).

The transportation providers are allowed to design their own certifications, as long as they include all required information. Because providers do not have to submit the transportation certifications with their claims and because the division does not review the transportation certifications on a regular basis, the providers' non-compliance regarding required information has not been detected. The lack of information on the transportation certifications makes it difficult or impossible to verify that the trip occurred. As a result of the missing information, all the payments to transportation providers in our sample would be subject to recoupment.

Medical Visits

In order to be reimbursed for their services, transportation providers must transport a Medicaid fee-for-service beneficiary to an eligible medical care provider to receive a medical service covered by Medicaid. We tested the destinations noted on one month's transportation certifications for one provider and found that 200 of 227 destinations were not medical care providers. The total value of these claim exceptions was \$9,895. During fiscal years 2006 and 2007 this transportation provider was paid \$470,000 in Mobility Assistance Vehicle

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(MAV) service claims. If the sample's error rate was applied to this total, the provider was paid \$400,000 for ineligible trips. After being informed of these ineligible claims by the division, the provider's fiscal year 2008 MAV claim payments dropped to \$65,000 as of May 2008.

We subsequently tested a sample of one month's transportation claims from four other providers to confirm that a visit to the medical provider noted on the transportation certification had occurred. Our tests did not find any ineligible claims from these transportation providers. Despite the result of this additional sample test, a control weakness has been identified. The names of the medical providers are not included on the transportation claims and, as stated previously, the division does not review the transportation certifications on a regular basis. As a result, it is possible for providers to submit claims and receive reimbursement for ineligible trips.

Livery Providers' Multiple Load Billings

Livery providers often transport more than one beneficiary in the same vehicle at the same time; this is known as a multiple load. In these circumstances, the livery providers are allowed to bill a standard load fee for each passenger they transport and a mileage fee only for that passenger who is the farthest away from the destination. Payment for cumulative mileage, which is the mileage that accrues in multiple-load situations, is not permitted. Our tests indicated that all five livery providers tested for one sample month had submitted mileage claims for all of the passengers on their multiple-load trips. We reviewed a sample of 641 passenger trips from transportation certifications and daily log sheets and found 84 exceptions totaling 1,097 miles where the livery provider billed mileage for each of the passengers on a multiple load trip. This resulted in over-payments of \$3,291. The livery providers are able to bill for and receive payment for multiple-load mileage because of the inadequate review of the transportation certifications.

Follow-up Reviews

The division's review of one livery provider that was completed in July 2007 identified questioned costs of \$560,000 and its review of another livery provider which was completed in November 2006 identified questioned costs of \$42,000. However, division management has yet to take collection action against these providers.

In addition, the division's Bureau of Program Integrity (BPI) completed a review of eight livery providers in March 2005 which found numerous program violations, including expired automobile insurance policies, drivers with suspended licenses, incomplete transportation certifications, overbilled mileage, and beneficiaries not transported to a medical facility. The reports' recommendations stated that provider operations should cease until appropriate insurance had been obtained, unlicensed drivers should stop transporting passengers, overpaid claims should be recouped, and certain providers should be placed on pre-payment

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monitoring. However, all eight cases were put on hold and no action was taken on these recommendations.

As mentioned previously in this report, we also identified questionable billing practices by a Mobility Assistance Vehicle provider and the case was turned over to BPI in February 2007. Our review had indicated that the provider had violated several program regulations, such as transportation to non-medical providers and improperly coding origin/destination codes to avoid the requirement for prior authorizations. We had found that recipients were not transported by that provider to an appropriate medical care provider for 88 percent of the 227 claims we tested and no prior authorizations were obtained for 100 percent of the 27 recipients tested. As of May 2008, BPI has not completed its review of this provider and has not withheld payments during the review process.

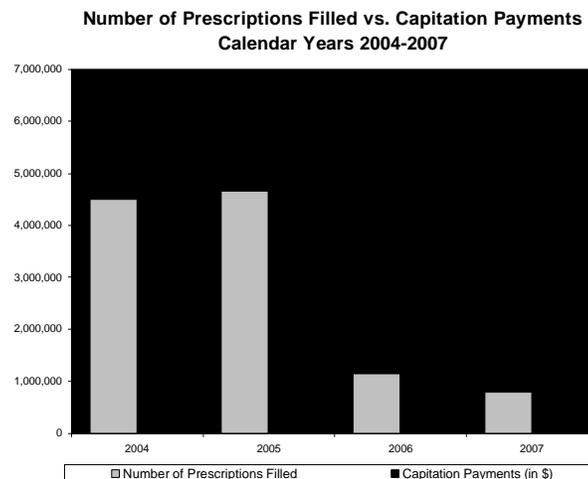
The integrity of medical transportation payments is weakened by an ineffective recovery process. Improper payments to transportation providers exceeding \$600,000 have not been collected, while other questionable payments that we identified have not yet been addressed by the division.

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
PAYMENTS FOR PHARMACEUTICAL DISPENSING FEES OF NURSING HOME
RESIDENTS**

Dispensing Fee Paid to Pharmacies

On January 1, 2006 the federal government implemented the Medicare Part D Prescription Drug program. This program ended Medicaid coverage of most prescription drugs for those individuals who are eligible for both Medicaid and Medicare (dual eligibles). Our review found that the division continues to pay pharmacy providers capitated dispensing fees even though most of the prescriptions for dual eligibles in nursing homes are covered by drug plans under the Medicare Part D program. In addition to the drug cost, the Medicare Part D program pays pharmacies a dispensing fee. The estimated average Medicare Part D dispensing fee reimbursement is \$2.27 per prescription.

Implementation of the Medicare drug benefit resulted in a major shift of prescription drug spending from Medicaid to Medicare. Our review indicated that the New Jersey Medicaid program experienced a substantial reduction in the number of prescriptions for Medicaid recipients in nursing homes. Medicaid prescription volume and total payments to pharmacies dropped by 82 percent and 79 percent, respectively, between calendar years 2004 and 2007. However, the capitated dispensing fee paid to pharmacies by the division was never adjusted to reflect changes in coverage caused by Medicare Part D.



The division had developed several project proposals to reduce dispensing fee payments to the pharmacies since Medicare Part D was enacted. However, none of the project proposals have been implemented. The New Jersey Medicaid program has continued to pay the same capitated dispensing fee to pharmacies, despite Medicare Part D coverage for most of these prescriptions and dispensing fees. If the capitated dispensing fee had been based on the reduced volume of prescriptions filled, the division could have saved \$10.9 million (50 percent federal) since January 1, 2006.

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

Coordination of Rebate Benefit Programs

We analyzed various aspects of the Homestead Property Tax Rebate program and the Property Tax Reimbursement (PTR) program to determine if they were adequately coordinated to prevent unreasonable payments. We determined that the combination of the effects of the two programs raises several areas of concern.

Homestead Rebate Calculation

New Jersey residents who are at least 65 or disabled can receive both a Homestead rebate and a PTR. The current Homestead calculation requires a taxpayer to multiply an income based percentage against the first \$10,000 of property taxes paid. The PTR program, which has existed since 1998, freezes property taxes for eligible persons by reimbursing them for property tax increases since their base year. A disproportionate Homestead rebate occurs for any individual who receives both benefits because the Homestead calculation does not factor in the net taxes paid on a property for anyone receiving a PTR.

For example, we identified a taxpayer who paid \$10,000 in property taxes in 2006. Their property taxes have been frozen for six years at a base amount of \$7,000. Consequently, they received a \$3,000 reimbursement from the PTR program. In addition, their Homestead calculation was based on gross taxes paid, which resulted in a \$2,000 rebate. If the calculation was performed on the net taxes paid of \$7,000, it would yield a rebate totaling \$1,400 or \$600 less than the current methodology.

For tax year 2006 there were 136,000 residents who received both a Homestead rebate and a PTR. We performed a recalculation of the Homestead rebates using net taxes paid and determined that 36,000 taxpayers would have received a reduced rebate. The state would have saved an estimated \$5.8 million if it had utilized this alternate calculation.

Rebates Exceeding Taxes Paid

Program statutes allow individuals to receive benefits from a variety of tax relief programs including the Homestead rebate, Property Tax Reimbursement, and the veteran's and senior citizen's credit. These tax benefits were developed to reduce the property tax burden for the residents of the state. However, it is not reasonable that the total relief exceeds the total property taxes paid. The statutes do not address how the total benefit received from all of the programs combined should be coordinated.

For tax year 2006 we identified 5,200 taxpayers who received combined rebates in excess of total property taxes paid. The total rebates were \$868,000 greater than taxes paid.

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

Rebate Overpayments

The Division of Taxation's (division) responsibility is to process, calculate, and distribute rebates to homeowners in accordance with the statutes. In order to comply with these laws, the division implements various system edits to ensure the accuracy of the rebates being processed. Our testing revealed various weaknesses in system edits that allowed inaccurate rebates to be issued.

Property Tax Reimbursement Overpayments

Overpayments can occur when applicants enter inaccurate data on their Property Tax Reimbursement (PTR) application. The division has a review in place to flag PTRs that exceed a specific threshold. Per our audit sample, the most common filing error by applicants involves the misinterpretation of the form directions and filing as if they owned a mobile home, which would require an 18 percent multiplication of site fees to calculate the base and subsequent year property taxes paid. However, applicants are multiplying property taxes by 18 percent to calculate their base year and in future years entering 100 percent of their property taxes to calculate their reimbursement. For example, one taxpayer has received a \$7,000 overpayment annually since 2003 due to entering incorrect information on the application.

For tax year 2006 we performed an analysis to identify high-risk payments. We determined that 980 PTR applicants' current property taxes were at least 100 percent greater than their base year taxes. We randomly sampled 84 transactions within this population and identified 49 inaccuracies. We performed a statistical projection and estimated that total overpayments were \$700,000 in 2006.

Multi-owner Property Overpayments

Residents can share ownership of a home and be eligible for a rebate based on the percentage of the property they owned. The total ownership can not exceed 100 percent. We noted numerous occasions where system review categories were not being triggered when property ownership claimed was greater than 100 percent. This occurs because the division mails out the Homestead rebate applications with a unique number derived from the New Jersey Property Tax System (MOD IV) database which is unique to the individual taxpayer, but not to the property. We conservatively estimated these type errors caused \$300,000 in overpayments for tax year 2006. A majority of these overpayments were the result of married individuals receiving one rebate as a couple and a second rebate as an individual.

Tenants Receiving More Than One Type of Rebate

Per statute, a taxpayer should receive a rebate based on their residence as of October 1st and can receive either the Homestead tenant or homeowner rebate, but not both. Current system

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

edits do not adequately identify taxpayers applying for and receiving both rebates. As a result, taxpayers have been able to receive both the tenant and homeowner rebate in the same year. We performed a match of all taxpayers who applied for both a tenant and homeowner rebate in tax year 2006 and identified 1,400 taxpayers. Through a combination of random and judgmental reviews of 30 taxpayers, we identified 11 taxpayers who received both rebates, totaling \$8,400 in overpayments.

In addition, taxpayers can not receive a Homestead tenant rebate and a PTR unless they are mobile homeowners. A match of taxpayers who applied for both a tenant rebate and a PTR resulted in 1,600 matches. Although this type of potential error is being identified by the division, their manual reviews are deficient. Our review noted that not all 1600 matches were errors; however, our review of 20 of these taxpayers noted five cases where an individual was not a mobile homeowner and received both a tenant rebate and a PTR. These overpayments totaled \$4,500.

Deceased Taxpayers

The division does not perform a match against death records before rebate checks are processed. This condition creates a heightened risk of ineligible rebate payments. We performed a match from the Bureau of Vital Statistics death files to both the Homestead Rebate and PTR programs for tax year 2006 and identified 1,900 matches. We judgmentally selected 35 and verified that four of the matches were deceased individuals with no surviving spouse and did not meet any other qualifying condition. These cases have a potential overpayment of \$30,000 and have been referred to the Division of Taxation's Criminal Investigation Unit.

Subsidized Tenant Rebates

Per a New Jersey tax court ruling the language and purpose of the Homestead Property Tax Rebate Act implicitly make the payment of local property tax an eligibility requirement for a homestead property tax rebate. In addition, per statute, rent amounts entered on the rebate application shall not include any amount paid under the federal Housing Choice Voucher Program or paid as a rental assistance grant. There are several state and federal rental assistance programs available to New Jersey residents. The Department of Community Affairs (DCA) administers approximately one third of total rental assistance cases within the state, totaling 21,000 individuals. Assistance provided by these programs can exceed 100 percent of the total rent paid. Currently, the division does not coordinate with the DCA to identify tenants who receive rental assistance. For tax year 2006, we determined 6,800 tenants received both rental assistance and Homestead Tenant Rebates totaling \$2.9 million. Due to the current structure of the DCA's database system, we could not project how many tenants received rental assistance greater than 100 percent. However, we were able to determine from DCA personnel that if a person receives a utility reimbursement, there is a high probability that they are receiving a 100 percent rental subsidy. For tax year 2006, we

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REBATE PROGRAMS**

identified 500 tenants who received utility reimbursements. These tenants received rebates totaling \$191,000.

Furthermore, without rental assistance data the division can not properly calculate a tenant rebate for a senior or disabled person. For tenants 65 or older and/or disabled, the rebate calculation takes into consideration the amount of property taxes paid which equates to 18 percent of rent paid. The division can not determine how much rent was actually paid for individuals who receive rental assistance. We determined that 1,500 seniors and/or disabled persons received tenant rebates and rental assistance. We judgmentally selected 15 tenants and recalculated their rebates based on actual rent paid. All 15 cases were overpaid for a total of \$7,600.

Internal Controls

Management is responsible for establishing and enforcing internal controls through formal policies and procedures to safeguard assets from loss or unauthorized use. Currently, conditions exist which weaken this assurance in the areas of health benefits, overtime, and wireless devices.

Health Benefits

Health, dental, and prescription drug benefits are provided to eligible employees through the State Health Benefits Program (SHBP). Financing for the premiums are provided to the SHBP through state appropriations. The Richard Stockton College of New Jersey (college) is sent a billing statement each month from the SHBP for the total cost of their active employees' benefits. The college is responsible for collecting required employees' contributions, such as the health benefits premium, the 50 percent dental premium employee share, and leave of absence payments.

Coverage under the SHBP should be discontinued upon an employee's termination or retirement, in the event of death, and when an employee is suspended or on a leave of absence without pay. To ensure accuracy of coverage for employees, the billing statements should be reviewed by the college on a periodic basis, and any discrepancies reported immediately to the SHBP.

We compared individuals listed on the October 2007 bill to active employees on the college's payroll roster during the same time period. We found 24 individuals should have been removed from the college's benefits roster for the following reasons.

- ? Twenty-one of these individuals had terminated employment with the college dating back to 1996.
- ? One employee was listed under two social security numbers with a charge for two different levels of coverage dating back to 2003.
- ? One employee elected to waive dental coverage effective in 1999, but this request was not processed.
- ? One individual who was never employed by the college was erroneously added to the college's benefits roster in December 2006.

Premium overpayments resulting from these errors totaled \$626,000.

We also tested 61 employees on leave without pay during the past few years to verify proper remittances for premiums due. We calculated premiums due to the SHBP for 56 employees totaling \$107,000. Examples included two former professors who each went on a one-year unpaid leave of absence from the college with continued benefits at a cost of \$15,000 and \$13,000. One employee elected to waive coverage while on two separate leaves; however, the college failed to notify SHBP at a cost of approximately \$11,000. Another employee owes over \$10,000 for continued coverage while on leave of absence.

THE RICHARD STOCKTON COLLEGE OF NEW JERSEY

The above errors were a result of the following:

- ? The college does not perform a periodic review of the monthly SHBP billings to ensure only eligible employees are enrolled.
- ? The untimely notification to the SHBP of the change in employment status has allowed coverage to continue past the eligibility period for a number of employees.
- ? The college did not properly advise employees of the status of their benefits while on leave of absence. The college did not properly and timely calculate the premiums due to continue coverage nor did they ensure collections of these amounts.

The college is currently in the process of terminating the coverage of all ineligible individuals. They are also in the process of collecting premiums due from employees who have been or are currently on leave without pay.

Overtime

The college has no formal policy and procedures relating to the assignment and approval of overtime in the plant management department. Our review disclosed the following:

- ? Two office employees in the department charged overtime with no documented approval. These individuals clocked overtime hours at their own discretion almost every work day, including holidays, weekends, and vacation days, beginning as early as 3:00 a.m. for an assigned 7:30 a.m. start. Overtime was also charged through the employees' lunch breaks. These individuals received over 40 percent of their regular pay in overtime payments. Payments totaled \$32,500 and \$37,000 in 2006 and 2007, respectively. One of these individuals was the plant timekeeper who has the capability to manually adjust time in the time reporting system. An audit trail report of the adjustments is purged from the time reporting system at the end of each pay period. We noted that generous rounding of clocked overtime hours totaled \$1,650 in 2006 and \$2,800 in 2007 for this individual.
- ? One plant employee reports two hours early every day for a routine assignment. Overtime should be the result of nonrecurring or unexpected events rather than routine assignments. No scheduling adjustments were made to eliminate this need for overtime. These payments totaled \$15,000 annually in 2006 and 2007.
- ? Two supervisors approved their own overtime. We were informed that one of these employees reports early on many occasions to set up events. However, we noted 220 work days where the employee charged overtime in calendar year 2007. Total overtime for this employee was \$24,000 in 2006 and \$23,000 in 2007.

Cost and Assignment of Wireless Devices

The college does not have a formal policy relating to the distribution, usage, and monitoring of services for wireless cell phones and Blackberry devices. Each department authorizes

THE RICHARD STOCKTON COLLEGE OF NEW JERSEY

service to employees based on their available budget. One employee of the college sets up wireless accounts with one service provider, but is not responsible for determining necessity, monitoring usage, or analyzing costs. The college pays for service on approximately 90 wireless devices and claims to utilize the state contract. We noted that one individual assigned a Blackberry is not on the payroll.

We analyzed one year of the college's wireless accounts for usage and cost totaling \$52,000. We found that the state contract was not properly utilized. The college has 16 separate accounts and shared minutes are only pooled for the devices within each account. Many devices did not come close to the allowed minutes and 17 devices had usage less than 60 minutes for the year. Certain employees place an excessive number of 411 (information) calls at \$1.25/call for a total of \$720 for the year. One employee incurred charges of \$300 for this service.

We found that if the college properly utilizes the state contract they could save approximately \$18,000 (35%) annually. All calling plan only devices should be combined into one account with one provider and the Blackberry devices with calling plans should be combined into another account with a separate provider offering a more cost effective plan. We selected a service plan for each device based on usage history that also considered shared minutes for the overall account to arrive at the estimated savings.

In addition, we noted approximately \$9,000 in equipment charges for the period tested. These costs appear unreasonable, as free equipment is provided every two years by the service provider.

**HEALTH BENEFITS
ISSUES**

**DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
STATE HEALTH BENEFITS PROGRAM**

Coordination of Prescription Drug Benefits

Coordination of benefits refers to the rules for the order of payment of covered medical expenses when an individual is covered by two or more insurance plans. Although the Division of Pensions and Benefits coordinates medical benefits for State Health Benefits Program subscribers who are also covered by other insurance policies, it only shares prescription drug costs with Medicare. Since the state does not coordinate prescription drug benefits, it pays the entire claim when a subscriber chooses to use the state plan. There could be savings to the program in cases where subscribers are covered by the state plan and by a private plan. Prescription drug claims for the state and participating local government entities were more than \$800 million a year during the audit period.

STATEWIDE ANALYSIS OF HEALTH BENEFIT COSTS IN SCHOOL DISTRICTS

Coordination of Benefits for Prescription Drug Plans

Although the law is very specific on the coordination of benefits for the medical and dental areas of health benefits it is silent to the prescription drug area. New Jersey Administrative Code (N.J.A.C.) 11:4-28 Appendix A states coordination of benefits is a provision that allows a carrier to coordinate what the carrier pays or provides with what another plan pays or provides. This appendix also outlines the rules for the order of benefit determination. Per these rules benefit plans are determined to be primary or secondary. A primary plan pays or provides services or supplies first, without taking into consideration the existence of a secondary plan. The benefit plan provided to an employee from a district is considered the primary plan of the employee; however, it may not be the primary plan for the spouse/partner or dependents. Coordination of benefits is intended to avoid duplication of benefits while at the same time preserving certain rights to coverage of all plans under which the person is covered. Since the law does not provide for coordination of benefits for prescription drugs, individuals covered by two plans may utilize the plan with the lower co-pays thereby resulting in higher health benefit costs to that member's plan. Premium and/or claim billings are increased when spouses/partners or dependents utilize the prescription drug benefits that would otherwise be processed under the covered person's primary plan if the coordination of benefits rules applied. Additionally, we reviewed each state's employee benefits website and noted 21 states coordinate benefits for prescription drugs.

**INFORMATION
TECHNOLOGY ISSUES**

OFFICE OF INFORMATION TECHNOLOGY ENTERPRISE DATA WAREHOUSE

IT Planning

An enterprise data warehouse is a database environment dedicated to providing a single, comprehensive view of the enterprise and provides a reliable source of consistent information for financial and strategic decision-making for the enterprise as a whole.

The Office of Information Technology (OIT) has spent six years and \$ 8.0 million in the development of an enterprise data warehouse. They currently have several subject oriented repositories of data for specific sets of users, otherwise known as data marts. The functionality provided within these data marts has been limited to supporting operational reporting.

A lack of planning and monitoring has contributed to this lengthy and incomplete data warehouse development. While OIT has developed a conceptual framework for the management of data known as the Common Information Architecture, it does not maintain a strategic IT plan guiding the development of the enterprise data warehouse architecture. In addition, detailed project plans were not followed. These weaknesses have prevented the accomplishment of the primary objective for implementing the data warehouse architecture, which is data integration.

Strategic IT planning helps to ensure the accomplishment of the business goals for the enterprise. A critical success factor in strategic IT plans is a documented methodology for the IT strategy development which is translated into long-term and short-term plans. Development of the data warehouse architecture began in 2001 with a project to develop a financial data mart for the Department of the Treasury, Office of Management and Budget using an addendum to an existing contract with American Management Systems. At that time, OIT had limited experience and resources available to enable them to perform this project. This approach ultimately defined the infrastructure software tools and data access tools to be utilized without evaluation of available alternatives. Subsequent projects have either been subsets of the original financial data mart providing a limited single agency view of this data, or have primarily provided agency specific data to that individual agency.

In addition, for project success detailed project plans must be followed. The OIT document titled “Data Warehouse: Development Methodology & Project Management” identifies the primary objective of the data warehouse and data mart project phases as focusing on meeting the state’s enterprise reporting requirements. As each project or iteration is completed for a subject area, enterprise-level data warehouse data and data mart specific data should be identified in order to continuously address the statewide enterprise informational requirements. Documentation was provided for a current example project after initial requests for selected completed projects had not been fulfilled. Our review of the documentation disclosed that most of the formal reports and numerous task related deliverables were not available. After inquiry as to the absence of these documents, the conclusion was reached that due to the lack of integration of subject area data the need for the completion of many specified documents associated with this aspect of development was omitted.

STATEWIDE DATA PRIVACY

Third Party Connections

We sent surveys to 50 agencies and received back 49. The Department of the Treasury failed to respond to our repeated requests. The survey was used as a tool to gather information by asking each agency to provide details on which state and federally funded programs produce confidential data and identifying where the data is stored, whether at the agency, at the Office of Information Technology (OIT), shared between both agencies, or held at a third party. We also inquired about the measures employed for data security such as encryption, data classification, and the existence of security policies and procedures. We also asked what legal and regulatory requirements applied to the information, such as the Health Insurance Portability and Accountability Act (HIPAA), the Open Public Records Act (OPRA), and the Federal Education Rights and Privacy Act (FERPA).

Our survey asked each recipient if there were any third parties that accessed, processed, or managed information systems for state programs. Of the 237 systems that contained personal or confidential information, 72 (30%) have third parties that are connected to these systems for various reasons. The additional field work found a lack of security agreements with third parties and no statewide policy has been drafted to address the security requirements for third party connections.

Industry standards state that third parties accessing (beyond read capability), processing, communicating, or managing the organization's information should be required to enter into data access agreements covering all relevant security requirements.

Opening a connection to a third party which allows that third party to access data on state systems or to transfer data to and from state systems could make the state vulnerable to security weaknesses of the third party. Consistent and comprehensive agreements with third parties that include relevant security requirements should be developed and enforced.

PROCUREMENT ISSUES

**DEPARTMENT OF LAW AND PUBLIC SAFETY
DIVISION ON CIVIL RIGHTS
DIVISION OF HIGHWAY TRAFFIC SAFETY
DIVISION OF ALCOHOLIC BEVERAGE CONTROL
NEW JERSEY RACING COMMISSION**

Licensing and Case Management System

The Division of Alcoholic Beverage Control (ABC) is comprised of three bureaus: Licensing, Regulatory, and Enforcement. The division determined that the existing licensing and case management systems no longer met their needs. In order to prepare for a new system, a detailed feasibility study was performed to establish required system features and a Request for Quote (RFQ) was issued in February 2005 to solicit proposals from qualified bidders for an integrated licensing and case management system which would serve the needs of all three bureaus. A private consulting firm was hired to assist in selecting software manufacturers and managing the project. Since these products are integrated suites, a limited competition waiver of advertising was pre-authorized by the Department of the Treasury, Division of Purchase and Property to solicit proposals from qualified bidders for an integrated licensing, financial, and case management system to replace the existing systems at ABC.

In April 2005 a four-member evaluation committee with representatives from ABC, the Office of the Attorney General, and the independent consultant was established to review the bids received. The committee determined that a particular vendor was the most responsive to ABC defined requirements, received the highest technical score, and was awarded the contract at a cost of \$1,089,000. The implementation was to take nine months and be completed by December 2005. More than two years later the system has not been successfully implemented. The software package presented by the vendor was a commercial off-the-shelf solution with a limited number of customizations to deal with ABC specific needs. ABC management has had various issues with the functionality of the system, its ease of use, and configuration problems. The current data entry procedures are not functional and a large number of enhancements need to be implemented in order to tailor the software to the division's requirements. The vendor invited ABC to negotiate a new project budget and schedule based on the amended scope. However, no agreement has been reached as to how much additional funds will be needed to complete the project. Cumulative payments to the vendor for the implementation of the software totaled \$498,500 and the project consultant received \$148,000. Currently the project is stalled and ABC management has no confidence in the vendor's ability to complete the project.

**DEPARTMENT OF LAW AND PUBLIC SAFETY
DIVISION OF STATE POLICE**

Purchasing

The Division of State Police (division) has a decentralized purchasing approach. This approach requires many individuals to obtain a working knowledge of purchasing requirements which typically would be a buyers' field of expertise. Each unit is assumed to know an item is under contract, the contract terms, and the specifications of the contract. All requesting units within the division are required to follow the Delegated Purchasing Authority (DPA) process outlined in the Department of the Treasury Circular Letter 06-16-DPP. DPA procedures state that if the item is not available under one of four primary contracting methods the item may be ordered from non-contract vendors. Minor differences in functionality and/or performance of the desired item or service are not valid reasons for purchasing that item or service through DPA. DPA purchases are regulated by dollar limits. Competitive bids are not required for purchases under \$500. Purchases over \$500 and up to \$17,500 require three quotations. Purchases over \$17,500 and up to the DPA maximum of \$29,000 require a minimum of four sealed bids. Annual cumulative purchases of \$29,000 for a commodity from one vendor are also subject to DPA limits.

The division processed 8,500 DPAs during fiscal year 2006, which represented 40 percent of all purchases. Fifty-one percent of all DPAs were for \$500 or less. In a review of purchases, we noted multiple purchases of a commodity from one vendor which is not in compliance with DPA standards. In addition, an example of the inefficiency caused by the decentralized purchasing process is the fact that the division purchased 37 different models of printers from 2005 to 2007 which requires a multitude of ink cartridges to be stocked in inventory. Lack of adequate review and expertise allows for the circumvention of purchasing requirements.

**DEPARTMENT OF LAW AND PUBLIC SAFETY
JUVENILE JUSTICE COMMISSION
JUVENILE MEDIUM SECURITY CENTER**

Procurement

The State of New Jersey, Department of the Treasury Circular Letter 06-16-DPP defines a Delegated Purchasing Authority (DPA) purchase as a purchase transaction that cannot be procured through one of four primary contracting methods: a state contract, the State Distribution and Support Service Center (DSS), the Bureau of State Use Industries (DEPTCOR) or the central non-profit agency CAN/ACCESS NJ (CAN).

In addition, the circular letter delineates the approved procedures by dollar level and prohibits dividing purchases to circumvent the dollar limits imposed.

In our testing of Juvenile Medium Security Center (center) purchases, we noted the following specific issues.

- ? The center used non-contract vendors to purchase items available through state sources or contract vendors. We were provided some memorandums purported to justify deviation from the state sources/contract vendors citing the inferior quality of their products; however, no formal complaints were ever filed by the center with either state contract vendors or the Bureau of State Use Industries as to the inferiority of their products.
- ? Recurring purchases were divided to bring them under the DPA thresholds that would have required competitive bidding.
- ? The procedures section of the circular letter details that all DPA procurements require vendors to provide Ownership Disclosure Forms, Affirmative Action Employee Information Reports, MacBride Principles Certification, and provide a Business Registration Certificate. None of these forms were obtained by the center.
- ? The current process allows the receiving unit to determine needs, obtain vendors, receive goods, and fill supply requests. There is no inventory of warehouse goods except for canteen items sold to the residents. As a result the center has no independent basis to ensure that orders were complete, to monitor inventory or to identify any misappropriation of goods.

**DEPARTMENT OF THE TREASURY
DIVISION OF PURCHASE AND PROPERTY
DISTRIBUTION AND SUPPORT SERVICES**

Procurement of Copy Paper

A Department of the Treasury review of commodities purchased and distributed by Distribution and Support Services (DSS) concluded that certain products should be moved to vendor direct contracts. As a result, in fiscal year 2005 copy paper was removed from the DSS product line and made available through direct vendor contracts. As part of the plan, savings were realized by replacing other state leased property with DSS space including that made available by removing the copy paper product line. Over time, reduction of the items stored at DSS has resulted in sufficient space for DSS to return copy paper to its product line. Our review further disclosed that customers would have saved \$374,000 annually on their copy paper costs had DSS been the supplier. Additional costs of returning the product line would be absorbed in the DSS mark-up applied to all sales.

**UNIVERSITY TRAVEL
EXPENSE ISSUES**

Travel Reimbursements

Rowan University (university) travel policy provides for payment of employee and vendor travel expenses that are deemed necessary and essential to transacting the official business of the university. The policy specifically states reimbursements will be made based upon actual costs as supported by original receipts and that the most economical use of transportation must be utilized unless otherwise justified in advance. This policy applies to all administrative employees, faculty, staff, and others authorized to travel on behalf of the university.

University travel expenses approximate \$1.6 million annually. Our audit disclosed that controls over the approval and monitoring of travel reimbursements are inadequate which has allowed for unsupported payments to be processed by the university. Our review of expenses totaling \$91,300 over a two-year period disclosed nine of 20 payments were not approved in accordance with the established policy. In addition, six did not have proper supporting documentation. Specifics follow:

- ? The university entered into a contract for a new financial system which provides for reimbursement of vendor travel and living expenses. We noted that payments were based on summary statements that were not supported by adequate documentation including receipts. Reimbursed expenses included airfare for which the class of service, arrival and departure city, and dates of travel were not specified. Expenses categorized as auto/taxi were also reimbursed in total without the mode of transportation or dates specified. Miscellaneous charges were also reimbursed with no further description provided. The university has budgeted \$272,500 for these costs of which \$124,300 has been paid as of November 2007.

- ? Cash advances are provided to coaches for student athlete daily meal allowances. A formal policy requiring each student to sign for the money at the time of receipt has not been established which makes it difficult to determine if the advance was fully distributed to the athletes. In one case unused funds in the amount of \$3,591 were returned but a formal reconciliation documenting how this amount was determined was not required. The initial cash advance was for \$5,415. A best practice based on the policy of another university requires a student per diem signature form to be completed. The dollar amount given to each athlete is posted on the form at the time the student signs and receives the money

- ? An advance payment of \$5,050 to reserve 43 rooms for an athletic team was not supported by a vendor invoice of actual costs.

Travel Expenses

According to the Rutgers University's (university) Travel, Travel Incidentals, and Meal Expense Policy 40.4.1, the university will reimburse individuals for reasonable, necessary, appropriate, and approved travel and business expenses incurred in the performance of university business. Reasonable is defined as the cost or service that is not excessive. Appropriate means the expenditure is consistent with the objectives of the program, project, or task and is allowable under the terms and conditions of the underlying funding source and/or policies. Necessary means the expenditure is required to achieve the expected goals or outcomes of the program, project, or task.

Examples of expenses that will not be reimbursed by the university include expenses that are not Rutgers business-related, spouse's/family member's travel costs, business or first class tickets, unreasonably expensive meals and alcoholic beverages which cannot be reimbursed from state or federal funding sources, gifts, and personal items and services.

Our review of travel expenses noted the following exceptions.

- ? Twenty-nine of 491 air and rail fares processed during April and May 2007 were unreasonably high. We noted 23 airfares totaling \$21,000 were more than 100 percent greater than current rates. Additionally, we noted six Amtrak Acela line tickets at twice the cost of a regular Amtrak ticket. The travel time difference between the two trains was insignificant.
- ? The university paid airfare, hotel and per diems for the spouses, guests, and children of the athletic staff at a bowl game. In room movies, valet parking, room service, internet connections, and phone charges totaling \$11,000 were also paid. The university does not currently have a formal policy addressing these types of expenditures.

OTHER ISSUES

DEPARTMENT OF BANKING AND INSURANCE

The Compensation Rating and Inspection Bureau

The New Jersey Compensation Rating and Inspection Bureau (bureau) is an organization first established in 1917 by an act of the Legislature, under the supervision of the Commissioner of Banking and Insurance to maintain rules, regulations, and premium rates for workmen's compensation insurance. The bureau's authority to operate and collect the revenues necessary to perform its various functions is provided through the State Legislature. Its primary responsibility to maintain premium rates for workmen's compensation insurance remains under the supervision of the Commissioner of Banking and Insurance.

We reviewed the bureau's internal control structure and examined the records for expenditures, including credit card and travel transactions, and payroll and personnel policies. Our examination disclosed the following issues.

- ? The bureau has no written procurement procedures to ensure transparency and a competitive bidding process. The contracts we reviewed did not include documentation that they were competitively awarded. For example, we noted one contract for the replacement of the bureau's HVAC for a total cost of \$130,000. Another contract was awarded for website development and related IT services for \$198,000. In addition, the bureau purchased 129 office chairs at a cost of \$707 or \$727 per chair.
- ? A vendor was paid \$60,000 between January 2007 and May 2008 for various building maintenance and equipment removal/movement issues. We were unable to determine how the amounts on the invoices were calculated and if the cost for the services provided were reasonable. There was no contract for these services.
- ? The Bureau maintains a credit card account in the name of the executive director. We obtained the statements from July 2006 through April 2008. A total of \$55,000 was charged on the card including \$12,000 for airline tickets, hotels, and car rentals, and \$6,000 for meals. Documentation did not exist in the files to support that these charges were for official travel and/or business meetings. Several other charges did not appear to be related to the general operations of the bureau such as: premium chocolates, Valentine lollipops, floral arrangements, Halloween items, and gift cards. The credit card was also used to purchase personal airline tickets and a personal laptop computer and then subsequently reimbursed.
- ? An executive dining establishment in Newark was paid \$19,000 by the bureau during our audit period including \$10,000 for two Christmas parties held at the location, \$5,000 for two annual luncheon meetings, and \$450 for the purchase of two gift certificates. Additional payments were for breakfasts and lunches.
- ? Since July 2002 the executive director received a \$400 monthly allotment in lieu of providing him with an automobile. The bureau should consult with their accountant to determine if these types of payments are considered income and therefore part of taxable wages.

FARMLAND ASSESSMENT PROGRAM

Application Approval Controls and Oversight

N.J.S.A. 54:4-23.6 states that all land actively devoted to farmland/woodland use is eligible for farmland assessment provided owners meet certain qualifications. A determination must be made by the municipal tax assessor on a yearly basis through an application process. Applications must be submitted to the municipality by August 1. The approved applications are forwarded to the county tax administrator by January 1 for their review and are subsequently forwarded to the state's Division of Taxation by February 15 for data entry and reporting purposes. The municipal tax assessors, county tax administrators, the county tax boards, and the Division of Taxation all have oversight responsibility over the farmland assessment program.

The state constitution provides for levy of a rollback tax if the use of the land changes. Any land which changes from an eligible agricultural or horticultural use under the Farmland Assessment Act to some other non-farm use is subject to rollback taxes for the year in which the change takes place and for the two immediately preceding tax years.

Our review of program compliance at the three sampled municipalities noted an internal control weakness and numerous errors relating to the approval process. One municipality had a clerk approve applications instead of the tax assessor who by administrative code is required to review, approve, sign, and date the application form. We noted numerous approved application errors where insufficient land was actively devoted to farmland/woodland use. Examples of these and other errors follow.

- ? One property owner who paid \$93.25 in property taxes on 6.5 acres had only 1.5 acres of harvested crop actively devoted to farmland. This property should not have qualified because the minimum five acre actively devoted to farmland requirement was not met.
- ? One property owner with 35.46 acres submitted an incomplete and unsigned application and paid \$601.93 in property taxes. This application should not have been approved without it being completed, signed, and reviewed.
- ? Six of the 81 applications reviewed were approved without the required Woodland Data Form which provides an owner's assertion that the property is actively devoted to an agricultural use and the approved Woodland Management Plan is being followed. In addition, our review of the Department of Environmental Protection's database noted that 156 approved properties statewide did not have a current Woodland Management Plan.

Statutes require on-site inspection of farmland/woodland acreage at least once every three years. Our review noted that the inspections are not being completed by the tax assessors for farmland and by the Department of Environmental Protection for woodland in a timely manner. One municipality reviewed keeps a log of inspections and at the current rate it would take over 12 years to inspect all properties currently in the program. The remaining two municipalities reviewed stated they perform limited inspections but no documentation could

FARMLAND ASSESSMENT PROGRAM

be provided to support that they were actually performed. One of the three county tax administrators interviewed stated the county board of taxation would initiate procedures to ensure inspection requirements are met. The remaining two county tax administrators were unaware that inspections were not being performed timely. Our review of the Department of Environmental Protection noted that less than half of the required inspections are being done yearly.

In addition, the statute states the municipality may impose a fee for an on-site inspection of not more than \$25. These fees are rarely imposed. The reason for the lack of inspections is due to the limited working hours of full and part-time tax assessors. Imposition of these fees could offset the cost of performing additional inspections and serve as an inspection tracking mechanism.

Approval of ineligible applicants results in property tax losses to municipalities. The average property taxes per acre based on our sampled municipalities for farmland is \$14. When compared to the average property tax assessment for vacant land of \$507 per acre, taxes on average are 36 times less for program participants, based upon information supplied by the three municipalities reviewed and other state sources.

Oversight and Monitoring by the State and County

There are several levels of government responsible for the effective operation of the farmland assessment program starting at the state level with the Department of the Treasury, Division of Taxation. The division has the oversight and monitoring responsibility for all application approval processes and ensuring that on-site inspections are being performed for farmland operations through its oversight of the county tax boards. The county tax boards supervise the county tax administrator, who monitors the municipal tax assessors. The last time the Division of Taxation went out to monitor the farmland assessment program was between 1983 and 1985. None of the three county tax administrators we visited reviewed the tax assessor's functions and duties as they relate to the program. The lack of oversight and monitoring at all levels has undermined the effective operation of the program.

Program Regulations and Policy Considerations

The intent of the statute is to provide financial assistance to farms through lower assessments and taxation of land. Existing regulations, formulated in 1964, require the land to be actively devoted to agricultural or horticultural use.

Our review concluded that the existing regulations on actively devoted farmland/woodland need to be defined by effort, productivity, or with current monetary values to adhere to the intent and integrity of the statute. Currently there is no clear definition of what constitutes actively devoted use of land in terms of productivity or effort. Our review noted one property owner who paid \$15.05 in property taxes with 7.26 acres of permanent pasture with only one sheep was approved by the municipal tax assessor. There is no definition of the number of

FARMLAND ASSESSMENT PROGRAM

required livestock per acre needed to qualify for the farmland assessment program. In addition, there is no definition for cropping quantities that would define actively devoted agricultural or horticultural production.

Gross sales of products produced from the land must total at least \$500 per year for the first five acres plus \$5.00 per farmland acre and \$.50 per woodland acre for each acre over five. These amounts have not changed since 1964. Consideration should be given to changing the dollar amounts to reflect current sale values.

Our review also noted that the existing tax rollback provisions are significantly less than states with a similar program. The state constitution provides that if land is changed from agricultural/horticultural to non-farmland use then the difference in taxes based on the non-farmland use would be recovered for the current and prior two years. Other states use a longer rollback period as a deterrent for land speculation.

**MOTOR VEHICLE COMMISSION
BACKGROUND CHECKS – SCHOOL BUS DRIVERS**

We found that the lack of standardization of background check procedures that includes input from both the Federal Bureau of Investigation and the Division of State Police poses a risk to certain school age children. Using both background checks provides a comprehensive review that transcends state lines and jurisdictions. This type of review is already required of all prospective employees of school districts having immediate contact with school age children. School bus drivers who would not be required to have the additional FBI background check include those working for private schools that have chosen not to be under the jurisdiction of Department of Education (DOE), and those working for the departments of Human Services, Children and Families, and Law and Public Safety.

The DOE and Motor Vehicle Commission (MVC) school bus driver data needs to be periodically reconciled. Our review noted seven individuals whose disqualification by the DOE was never noted on the MVC system and the drivers maintained an active “S” endorsement license. We also noted that appropriate notification to the responsible oversight organizations is not always done when disqualification information is obtained. When disqualifications are issued by the DOE, it provides written notification to the applicant, the MVC, and the employer. When there is a disqualification, revocation, or suspension of a school bus driver’s license by the MVC it only notifies the individual. The DOE is not notified as required by N.J.S.A. 18A:39-19.1 nor is the employer notified.

OFFICE OF THE PUBLIC DEFENDER

Pool Attorneys

Pool attorneys are primarily utilized when more than one defendant is charged with a crime and more than one defendant is assigned to the Office of the Public Defender (OPD). The OPD staff attorney would defend one person and the remaining defendants would be assigned to pool attorneys. The office used approximately 950 pool attorneys during our 26 month audit period. Annual costs for pool attorneys were \$12.9 million. Pool attorneys are reimbursed at a rate of \$50 per hour for out-of-court time and \$60 per hour for in-court time plus reasonable expenses. At the completion of a case, pool attorneys are required to submit invoices and time sheets indicating hours worked and a description of work performed. The invoices and time sheets are reviewed and approved by a regional public defender; however, there is no routine review to determine the number of hours charged per day by an individual attorney who may work on several cases in a day and may also be working in different OPD districts on the same day.

The OPD considers any day for which a pool attorney billed 12 or more hours to be potentially excessive. Periodically, the fiscal unit will select a number of pool attorneys for a desk audit based on a predetermined amount paid during a particular period. Invoices and time sheets are retrieved and hours billed are tabulated by day. The pool attorney is contacted and is required to justify any excessive hours billed or reimburse the OPD for any amount overbilled. During our audit period, the OPD performed desk audits on six pool attorneys. Two pool attorneys were required to either reimburse OPD or perform “pro-bono” work totaling \$12,822.50. Our review of invoices totaling \$332,572 and time records submitted by three of the more active pool attorneys during fiscal year 2008 disclosed that 141.1 hours were billed in excess of 12 hours per day resulting in possible overpayments.

In response to our prior audit recommendation, the OPD is developing a pool attorney timekeeping system which would recognize daily charges exceeding 12 hours.

**OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2008**

<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 Only		
Department of Banking and Insurance		X		
Department of Corrections				
East Jersey State Prison	X	X	X	
Mountainview Youth Correctional Facility			X	
Department of Environmental Protection				
Administration				X
Department of Health and Senior Services				
Office of Hospital Finance and Charity Care				
Charity Care Program			X	
Department of Human Services				
Division of Medical Assistance and Health Services				
Durable Medical Equipment and Supplies	X	X	X	
Health Benefits Coordinator Contract for the NJ				
FamilyCare Program	X	X	X	
Medical Transportation Services		X	X	
New Jersey Medicaid Management Information System		X		
Payments for Pharmaceutical Dispensing Fees of				
Nursing Home Residents			X	
Department of Law and Public Safety				
Division on Civil Rights, Division of Highway Traffic				
Safety, Division of Alcoholic Beverage Control,				
New Jersey Racing Commission	X	X	X	
Division of Law				X
Division of State Police	X	X	X	
Juvenile Justice Commission				
Juvenile Medium Security Center	X	X		
Department of Personnel				
Information Technology Management		X		
Department of the Public Advocate		X		
Department of the Treasury				
Division of Pensions and Benefits				
State Health Benefits Program		X	X	
Division of Purchase and Property				
Distribution and Support Services			X	
Division of Taxation				
Rebate Programs		X	X	
Farmland Assessment Program	X	X	X	

**OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2008**

<u>REPORT</u>	<u>TYPES OF FINDINGS</u>			
	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY/ EFFICIENCY</u>	<u>NONE</u>
Interstate Environmental Commission		Single Audit Report		
Motor Vehicle Commission Background Checks - School Bus Drivers		X		
New Jersey Comprehensive Annual Financial Report		Opinion Only		
New Jersey Economic Development Authority				X
Office of Information Technology Enterprise Data Warehouse			X	
Office of the Public Defender		X		
Pinelands Commission		Single Audit Report		
Rowan University		X	X	
Rutgers, The State University of New Jersey	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		
Statewide Analysis of Health Benefit Costs in School Districts			X	
Statewide Data Privacy		X		
The Richard Stockton College of New Jersey		X	X	
Town of Hammonton School District		X		