



**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**

**State of New Jersey
Report on Internal Control over Financial
Reporting and on Compliance and Other
Matters Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards**

For Fiscal Year Ended June 30, 2015

**Stephen M. Eells
State Auditor**

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New Jersey State Legislature

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The Honorable Chris Christie
Governor of New Jersey

The Honorable Stephen M. Sweeney
President of the Senate

The Honorable Vincent Prieto
Speaker of the General Assembly

Ms. Peri A. Horowitz
Executive Director
Office of Legislative Services

We have audited the financial statements of the State of New Jersey as of and for the year ended June 30, 2015 and have issued our report thereon dated March 10, 2016. In connection with that audit, we tested internal controls and compliance with laws and regulations. The results of our tests are contained herein in our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

The audit was performed and this report is submitted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

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

Stephen M. Eells
State Auditor
March 24, 2016

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

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REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Independent Auditor's Report

The Honorable Chris Christie
Governor of New Jersey

The Honorable Stephen M. Sweeney
President of the Senate

The Honorable Vincent Prieto
Speaker of the General Assembly

Ms. Peri A. Horowitz
Executive Director
Office of Legislative Services

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of New Jersey, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the State of New Jersey's basic financial statements, and have issued our report thereon dated March 10, 2016. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component units, the pensions and other employee benefits trust funds, and the Port Authority of New York and New Jersey, as described in our report on the State of New Jersey's basic

financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the pensions and other employee benefits trust funds and two discretely presented component units, the Higher Education Student Assistance Authority and the Casino Reinvestment Development Authority, audited by other auditors, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of New Jersey's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of New Jersey's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of New Jersey's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant weaknesses may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control described in the accompanying Schedule of Findings and Responses (see finding number 2015-001) that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of New Jersey's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State of New Jersey's Response to Findings

The State of New Jersey's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The State of New Jersey's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Stephen M. Eells
State Auditor
March 10, 2016

State of New Jersey
Schedule of Findings and Responses

Finding: 2015-001

Financial Statement Reporting

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

Audit adjustments totaling \$270.8 million were made to correct tax revenue accruals and revenue allocations in the General Fund and the Property Tax Relief Fund because of calculation errors by the Department of the Treasury's Office of Revenue and Economic Analysis (OREA).

In our fiscal years 2009, 2010, and 2014 reports, we recommended a more detailed review of OREA's tax accrual calculations be completed prior to submission to OMBFR.

Recommendation

We recommend OREA conduct a more detailed review of their year-end tax accrual and revenue allocation calculations. We also repeat our previous recommendations that a detailed independent review of OREA's tax accrual calculations be completed prior to the journal entries being recorded.



State of New Jersey

OFFICE OF THE STATE TREASURER

PO Box 002

TRENTON, NJ 08625-0002

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

FORD M. SCUDDER
Acting State Treasurer

March 18, 2016

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

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

Dear Mr. Eells:

The Office of Management and Budget (OMB) appreciates the efforts of your staff in their audit of the Comprehensive Annual Financial Report. We are working to resolve the finding noted in the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, and we would like to thank you for giving us an opportunity to comment on the finding. The response to the audit team's recommendation is as follows:

Financial Statement Reporting

The following internal control over financial reporting weakness was noted during our current audit.

Finding 2015 – 1

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

Mr. Stephen M. Eells
March 18, 2016
Page 2

Audit adjustments totaling \$270.8 million were made to correct tax revenue accruals and revenue allocations in the General Fund and the Property Tax Relief Fund because of calculation errors by the Department of the Treasury's Office of Revenue and Economic Analysis (OREA).

In our fiscal years 2009, 2010, and 2014 reports, we recommended a more detailed review of OREA's tax accrual calculations be completed prior to submission to OMBFR.

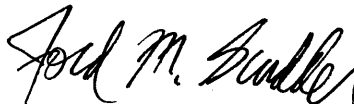
Recommendation

We recommend OREA conduct a more detailed review of their year-end tax accrual and revenue allocation calculations. We also repeat our previous recommendations that a detailed independent review of OREA's tax accrual calculations be completed prior to the journal entries being recorded.

Response

The Office of Revenue and Economic Analysis (OREA) appreciates the suggestions of the State Auditor and the participation of the State Auditor and his staff for the meetings and exchanges in which our offices engaged during the annual accrual process. OREA has had several recent staff changes including the retirement of our Chief Analyst and Chief Economist. We have not only replaced these positions, but hired as new staff members a trained accountant and a database analyst, both of whom will be engaged throughout the year in automating, updating, and documenting our accrual processes and procedures. Beginning with the FY 2016 CAFR, the Department will implement a third party independent review of OREA's tax accrual calculations. This review will be completed by the Department's Office of the Internal Auditor and will be completed prior to journal entries being recorded.

Sincerely,



Ford M. Scudder
Acting State Treasurer

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- c: David Ridolfino, Acting Director, Office of Management and Budget
Michael Griffin, Assistant Director, Financial Management, Office of Management and Budget
James Kelly, Manager, Financial Reporting, Office of Management and Budget