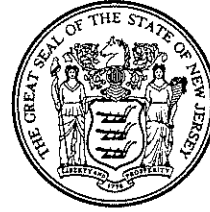


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**New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor**



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**Department of State**

July 1, 2009 to December 31, 2010

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**Stephen M. Eells  
State Auditor**

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The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Sheila Y. Oliver  
Speaker of the General Assembly

Mr. Albert Porroni  
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Office of Legislative Services

Enclosed is our report on the audit of the Department of State for the period of July 1, 2009 to December 31, 2010. If you would like a personal briefing, please call me at (609) 292-3700.

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

Stephen M. Eells  
State Auditor  
June 6, 2011

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### *Scope*

We have completed an audit of the Department of State for the period of July 1, 2009 to December 31, 2010. The Department of State's core mission is to promote travel, tourism, the arts, and culture of New Jersey. Our audit focused on activities involving: the administration, War Memorial, New Jersey State Museum, Division of Archives and Records Management (DARM), Office of Faith-Based Initiatives, New Jersey Historical Commission, New Jersey Cultural Trust, New Jersey State Council on the Arts, Travel and Tourism, and Office of Volunteerism. At the request of the Department of State, the scope of the audit was expanded to include the Center for Hispanic Policy, Research and Development. Our audit included financial activities accounted for in the State's General Fund, the Cultural Centers and Historic Preservation Fund, and the New Jersey Cultural Trust.

The department had \$72 million in expenditures during fiscal year 2010, of which \$49 million was distributed in grants. Revenues for the department were approximately \$2 million, consisting of receipts collected from events held at the War Memorial and the New Jersey State Museum, as well as fees charged to state and local government agencies by the micrographics unit at DARM.

### *Objectives*

The objectives of our audit were to determine whether financial transactions were related to the programs, were reasonable, and were properly recorded in the accounting systems. We also tested for resolution of the significant conditions noted in our prior report dated January 3, 2005.

This audit was conducted 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.

### *Methodology*

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. In preparation for our testing, we studied legislation, administrative codes, and circular letters promulgated by the Department of the Treasury. Provisions we considered significant were documented and compliance with these requirements was verified by interview, observation, and through our tests of financial transactions. We also read budget messages, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions, as well as internal control and compliance attributes. Sample populations were sorted and transactions were judgmentally selected for testing.

To ascertain the status of findings included in our prior report, we identified corrective action taken by the department and tested transactions to determine if the corrective action was effective.

### *Conclusions*

We found that the financial transactions included in our testing were related to the programs, were reasonable, and were properly recorded in the accounting systems. In making these determinations, we noted certain internal control weaknesses relating to the War Memorial, the New Jersey State Museum, the Division of Archives and Records Management, and the New Jersey Council on the Arts meriting management's attention. We also found three of the four issues noted in our prior report have been resolved, including the internal audit and monitoring procedures relating to the department's grant functions. The remaining issue relating to the Division of Archives and Records Management segregating its billings and collections functions at the Records Storage Center has been restated in this report.

## War Memorial Operations

### **Event planning and accountability for events should be improved.**

N.J.S.A. 52:18A-212 states that “The Legislature finds and declares that the Trenton War Memorial building is a cultural, historic and artistic asset to the citizens of New Jersey and is used for activities, performances and official convocations by organizations, groups and public agencies from throughout the State.” The staff at the War Memorial takes only direct event expenses into consideration in determining its feasibility when scheduling events. Management does not include other variable or fixed costs such as employee salaries and benefits, and building maintenance and utility costs. New Jersey operated the War Memorial at a \$1.5 million loss in fiscal year 2010 when accounting for all costs associated with the operations and maintenance of the building. Twenty-nine events and 107 rentals occurred during the year.

Certain events scheduled at the War Memorial lost much more money than others. These events involved performers who required guaranteed fees in addition to other event costs, including advertising, transportation fees, and stage crew costs. This results in a cost model where revenues often fall short of event expenses. When accounting only for direct event expenses, the 29 events lost \$300,000 in fiscal year 2010. When accounting for all costs associated with these 29 events, the loss more than triples to \$1million, with losses ranging from \$23,000 to \$57,000 per event.

During fiscal year 2010 the War Memorial also scheduled 107 rentals, which earned \$270,000 more than the direct expenses. However, when allocating all costs, these 107 rentals also incurred a loss, which totaled \$450,000.

The Acting Executive Director of the War Memorial makes the final decision to schedule events and set ticket prices, independent of any board or department input. Decisions regarding ticket prices and which musical or performance events to schedule may be better evaluated using a multi-person panel with experience in the cultural arts. This panel could also assist management in attracting talent with marketable name recognition, and developing a better strategic initiative designed to maximize sales and limit event costs.

We noted four employees received 36 complimentary tickets valued at \$1,800 during fiscal year 2010. This practice conflicts with the state’s Uniform Ethics Code, which asserts a zero tolerance policy regarding an employee’s acceptance of “any gift, favor, service or other thing of value related in any way to the State official’s public duties.”

## Recommendation

We recommend the department:

- Consider total costs, which include direct event expenses, plus variable and fixed costs such as employee salaries and benefits, and building maintenance and utility costs, when scheduling events to determine appropriate pricing along with profit and loss for every event.
- Consider creating an advisory panel to assist the acting executive director in determining events to be scheduled, pricing considerations, and developing a strategic plan.
- Discontinue distributing complimentary tickets to state employees.



## Internal Controls

### **Internal controls over cash receipts should be strengthened.**

The War Memorial, the Planetarium in the New Jersey State Museum, and the Records Storage Center receive cash and checks for various purposes totaling \$1.6 million in fiscal year 2010. The potential for the misappropriation of these assets exist because duties are not properly segregated and other internal control weaknesses exist. We identified the following issues.

- At the War Memorial, cash is collected by the same employees who make the deposits. No reconciliation of deposits to ticket sales is performed. Although our reconciliation showed no discrepancies, it does not alleviate the risk of cash shortages. Point-of-sale complimentary tickets also pose a fraud risk; persons with access to tickets can also authorize printing and distribution.
- At the Planetarium in the New Jersey State Museum, the bulk of show sales are derived from a five-dollar admissions fee upon entrance. Preprinted and prenumbered tickets are used when tickets are sold. Although cash is forwarded to a separate employee to make the deposit, there is no reconciliation of the deposit to ticket sales. In addition, a report of which tickets were sold is not communicated to the department's fiscal unit. Although our reconciliation showed no discrepancies, it does not alleviate the risk of cash shortages.
- At the Records Storage Center located at Stuyvesant Avenue, one employee performs all functions related to billings, collections, deposits, and accounts receivable.

## Recommendation

We recommend:

- The department's fiscal unit reconcile cash deposits to ticket sales at the War Memorial and the Planetarium. The sequence of ticket numbers used for events at the Planetarium should be reported to the department's fiscal unit.
- Segregating the cash collection and depositing functions at the War Memorial and ensure these individuals are not responsible for the distribution of complimentary tickets.
- The cash receipts function at the Records Storage Center be segregated by dividing duties among at least two employees.



## Untimely Cash Deposits

**The department is not in compliance with the Treasury Circular Letter for cash receipts.**

Our audit found untimely deposits at the War Memorial, NJ State Museum, and at the Records Storage Center. Treasury Circular Letter 94-24-OMB states that "Agencies are to ensure that all moneys are deposited on the same day as received, and that entries of revenues into the State financial system are to have dates that are consistent with the actual bank credit date to the State bank account." The longer cash deposits are held the greater the risk for loss.

- Cash receipts tested at the War Memorial showed 27 of 44 (61 percent) were not deposited timely and 100 percent were not recorded in the accounting system timely. Receipts were held, on average, nine days prior to depositing and the receipt transactions were recorded 19 days late.
- Cash receipts tested at the Museum showed 28 of 30 (93 percent) were neither deposited nor recorded timely. Receipts were held, on average, 26 days prior to depositing and were recorded 31 days late.
- Although the Record Storage Center's cash receipts are recorded in the accounting system timely, deposits are only made weekly according to staff. We could not verify the number of days that cash receipts were held because checks are not logged or date stamped when received.

### **Recommendation**

We recommend the department comply with the requirements set forth in Treasury Circular Letter 94-24-OMB.



### **Improper Payments**

#### **Improper vendor payments were made without any substantiation of deliverables.**

The New Jersey State Council on the Arts (council) entered into three memorandums of agreements with a vendor for payments totaling \$300,000. The vendor had a working relationship with the council in prior years as an intern. Two of the agreements were approved by an employee of the council who does not have the authority to execute such agreements. The agreements allowed for payment to be received by the vendor in advance of services being rendered. In one instance, the advance was made prior to the execution of the memorandum of agreement. In all three instances, the department and the council have not received any documentation or substantiation of the deliverables being provided by the vendor and there was no monitoring of the projects to ensure deliverables were received. Projects approved by the council are processed by the department, which has a fiduciary responsibility to ensure their propriety. Furthermore, this matter has been referred to the Department of Law and Public Safety, Division of Criminal Justice for further investigation.

### **Recommendation**

We recommend the department document the status of these projects and determine if any additional action needs to be taken. In addition, lines of authority should be clearly defined. We also recommend that the council monitor its projects to ensure deliverables have been met by the vendor.



### **Center for Hispanic Policy, Research and Development Grants**

#### **Upon transfer from the Department of Community Affairs to the Department of State, the Department of State should strengthen the evaluation process and comply with the Treasury Circular Letter for grants.**

The Center for Hispanic Policy, Research, and Development (CHPRD) awarded \$2.7 million in grants to 31 Hispanic community-based organizations in fiscal year 2010. The CHPRD's Purpose Statement reads that "Each committee member shall be required to submit individual summary score sheets and evaluations, prior to committee discussions." We found that 18 of 39 (46 percent) evaluation forms tested for 19 approved grants were silent as to the evaluator's recommendation and all forms were missing the evaluators' names and dates.

We also found the state's Standard Grant Agreement guidelines were not followed when creating the CHPRD's grant agreement. The grant agreement used by the CHPRD does not have 14 of the required 23 sections of the Standard Grant Agreement, including procurement standards, allowable costs, monitoring of program performance, and access to grantee records. Treasury Circular Letter 07-05-OMB states that "Grant agreements developed by an agency for its exclusive use may be used; however, all sections of the Standard Grant Agreement must be included."

### **Recommendation**

Upon transfer to the Department of State, we recommend the department ensure evaluation forms and scoring sheets for CHPRD grants are completed with recommendations, evaluators' names, and dates. Further, we recommend that the CHPRD comply with Treasury Circular Letter 07-05-OMB and require applicants to submit all required information per the Standard Grant Agreement.





## State of New Jersey

DEPARTMENT OF STATE

TRENTON, NJ 08625

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CHRIS CHRISTIE  
Governor

LT. GOVERNOR KIM GUADAGNO  
Secretary of State

May 27, 2011

Stephen M. Eells, State Auditor  
Office of Legislative Services  
Office of the State Auditor  
125 S. Warren Street  
Trenton, NJ 08625-0067

Dear Mr. Eells,

We are pleased that the Office of Legislative Services' (OLS) audit found "that the financial transactions included in our testing were related to the programs, were reasonable, and were properly recorded in the accounting system." We hereby address "certain internal control weaknesses" below.

- **War Memorial Operations**

**Department of State Response** – The OLS report recognizes that the War Memorial operations could be more effectively managed. This observation is consistent with both the Governor's Transition Report and the proposed Fiscal Year 2012 budget, which provides for the War Memorial's privatization. Two bidders are currently being reviewed by a team established by Treasury's Purchase Bureau with an effective turnover date of July 1, 2011. As a result, any other issues raised regarding the War Memorial are moot.

- **Internal Controls Over Cash Receipts**

**Department of State Response** – We will review the work assignments of the staff involved to ensure proper segregation of duties and internal controls.

- **Untimely Cash Deposits**

**Department of State Response** – We will review the work assignments of the staff involved to ensure that the department complies with Treasury's Circular Letter 94-24-OMB.

- **Improper Payments**

**Department of State Response** – The improper payments to outside vendors have been reported to the Inspector General and, according to OLS, to the Department of Law and Public Safety's Division of Criminal Justice. As such, we will not comment further on

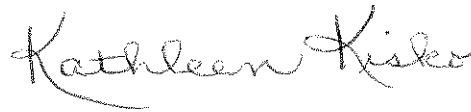
any items under investigation. We will, however, provide the final audit to the State Council on the Arts Board with an endorsement of the OLS recommendations.

- **Center for Hispanic Policy, Research and Development Grants**

**Department of State Response** – This audit was requested by the Department of State as a precursor to the transfer of the Center for Hispanic Policy, Research and Development as suggested by the Governor's Transition Report. Now that the audit is complete, we will implement each of the recommendations as the Center is transferred to the Department.

Thank you for your review and for bringing these matters to our attention.

Sincerely,

A handwritten signature in cursive script that reads "Kathleen Kisko". The signature is written in black ink and is positioned above the printed name and title.

Kathleen Kisko  
Assistant Secretary of State