



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

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**Department of Community Affairs  
Division of Fire Safety and  
Division of Codes and Standards**

July 1, 2011 to May 15, 2014

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**Stephen M. Eells  
State Auditor**



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## New Jersey State Legislature

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Enclosed is our report on the audit of the Department of Community Affairs, Division of Fire Safety and Division of Codes and Standards for the period of July 1, 2011 to May 15, 2014. If you would like a personal briefing, please call me at (609) 847-3470.

Stephen M. Eells  
State Auditor  
October 7, 2014

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## *Scope*

We have completed an audit of the Department of Community Affairs (DCA), Division of Fire Safety and Division of Codes and Standards for the period July 1, 2011 to May 15, 2014. Our audit included financial activities accounted for in the state's General Fund, New Home Warranty Security Fund, Urban and Rural Centers Unsafe Buildings Demolition Revolving Loan Fund, Volunteer Emergency Service Organizations Loan Fund, and Boarding House Rental Assistance Fund.

Annual expenditures for the divisions during our audit period averaged \$65 million, of which \$38 million was for payroll. Annual revenues for the divisions during our audit period averaged \$78 million. The prime responsibility of the Division of Fire Safety is to serve as the central fire service agency in the state. The division is responsible for the development and enforcement of the State Uniform Fire Code, as well as for implementing public education and firefighter training programs. The prime responsibility of the Division of Codes and Standards is to establish and enforce building codes, in partnership with the state's municipalities, to protect the health and safety of residents. The division houses the Bureau of Housing Inspection; implements construction codes including building, plumbing, fire protection, radon, asbestos, and lead abatement; and oversees carnival and amusement ride inspections, liquefied petroleum gas installations, rooming and boarding house licenses, and the state's New Home Warranty program.

## *Objectives*

The objectives of our audit were to determine whether the financial transactions were related to the divisions' programs, were reasonable, and were recorded properly in the accounting systems, and to determine if inspections are being completed properly and timely. An additional objective was to determine the adequacy of certain general controls over the Registration Inspection Management System (RIMS), including change management and logical access.

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. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In preparation for our testing, we studied legislation, the administrative code, circular letters promulgated by the Department of the Treasury, and policies of the DCA. Provisions we considered significant were documented and compliance with those requirements was verified

by interview, observation, and through our testing of financial transactions. We also reviewed financial trends and interviewed division personnel to obtain an understanding of the programs and internal controls.

To assess the reliability of the divisions' reports, we sampled information and tested it for completeness and accuracy. We determined that the reports were sufficiently reliable for the purpose of this report.

A nonstatistical sampling approach was used. Our samples of financial and program transactions were designed to provide conclusions on our audit objectives as well as internal controls and compliance. Sample populations were sorted and transactions were judgmentally selected for testing.

### *Conclusions*

We found the financial transactions were related to the divisions' programs, were reasonable, and were recorded properly in the accounting systems. We also found that, overall, inspections were done properly and in a timely manner. In addition, the general controls over RIMS were adequate. In making these determinations, we noted certain compliance issues meriting management's attention.

## Inspection Backlogs

### **The Division of Codes and Standards has a backlog of various required inspections.**

The Division of Codes and Standards is required to inspect various types of facilities and equipment. We reviewed division-prepared reports and found numerous backlogs in certain areas. The division is required by New Jersey Statute to perform annual physical and social inspections of most boarding homes. A social inspection includes a review of programmatic service requirements, staffing, dietary requirements, and the management of funds. Our review of division reports found that 147 of the 757 Class A boarding homes (19%) did not have a physical inspection performed within 13 months. Our review of division reports found that 9 of the 140 Class B, C, D, and E boarding homes (6%) did not have a physical inspection performed and 10 homes (7%) did not have a social inspection performed within 13 months. The division is also required to inspect all homeless shelters and all health care facilities. Although the statutes do not specify how often these inspections should be done, the Bureau Chief stated the division's unwritten policy is to inspect them annually. Our review of division reports disclosed 15 of the 133 homeless shelters (11%) did not have a physical inspection and a social inspection within 13 months. Our review also found that 9 of the 77 resident health care facilities (12%) did not have a physical inspection and a social inspection within 13 months. Although division personnel state that emergency inspections are done immediately, these backlogs of inspections could result in unsafe living conditions for the residents housed in the uninspected facilities.

The New Jersey Administrative Code requires the division to inspect all small liquefied petroleum gas (LPG) facilities annually. The division's policy is to inspect each facility once per calendar year. A small LPG facility is a facility that has a liquid withdrawal of any size up to 9,999 gallons or vapor withdrawals of between 2,000 and 9,999 gallons. Our review of division reports found that 153 of the 976 small LPG tanks (16%) had not been inspected in calendar year 2013. Of these 153, 79 had not been inspected in calendar year 2012. Small LPG tanks that are not inspected annually can result in unsafe working conditions and could be a danger to individuals in the vicinity of the tanks.

Division personnel have stated the lack of resources and increased staff responsibilities have contributed to the various backlogs.

### **Recommendation**

We recommend the division prioritize its resources to reduce the backlogs.

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## **Allowance for Doubtful Accounts**

### **The division has not written off doubtful accounts in a timely manner.**

The Division of Codes and Standards has \$33.5 million of receivables as of July 30, 2013 that they consider uncollectible. This debt has been maintained on the division's records for as long as 30 years. The division's records also show that 97 percent of its current bad debt has a judgment attached to it. The division is currently analyzing these records to verify the uncollectibility of this debt in compliance with Department of the Treasury Circular Letter 13-11-OMB. To date, it has forwarded approximately \$500,000 of receivables to the Division of Revenue and Enterprise Services (DORES) to be written off. The failure to write off receivables in the past was due to incomplete recordkeeping and a lack of understanding of the applicable Department of the Treasury guidelines.

### **Recommendation**

We recommend the division continue to analyze its files and forward the remaining uncollectible portion of the \$33 million to DORES in compliance with the circular letter.

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## **Timeliness of Deposits**

### **The divisions have not deposited checks in a timely manner.**

We found 73 of 100 Division of Codes and Standards (DCS) checks and 22 of 36 Division of Fire Safety (DFS) checks which we judgmentally selected were not deposited timely. These checks were deposited, on average, 6 business days after receipt (up to 21 business days after receipt) for DCS and, on average, 21 business days after receipt (up to 64 business days after receipt) for DFS. These untimely deposits totaled over \$1.3 million for DCS and \$138,000 for DFS. Department of the Treasury Circular Letter 12-02-OMB requires agencies to ensure that all state funds are deposited the same day as received. Procedures utilized by the two divisions, which are not uniform throughout the units and often involve numerous steps before checks are deposited, make it difficult to comply with the requirements of the circular letter. If checks are not deposited timely, the divisions are at a higher risk of checks being lost or stolen.

The Division of Fire Safety began using the Registration Inspection Management System (RIMS) for revenue collection during our audit period. The RIMS is an electronic system that allows all revenue to be sent directly to the Division of Revenue and Enterprise Services (DORES) in the Department of the Treasury via mail or by electronic payment. However, the division still receives approximately 100 to 200 checks per week from payers transitioning to the new process. The Division of Codes and Standards is scheduled to implement RIMS in the near future as well. Although the full implementation of RIMS will reduce the amount of manual deposits, the divisions still need to follow the Treasury guidelines for the checks they receive.

## Recommendation

The divisions should revise their deposit procedures for all checks they continue to receive so that they are deposited in compliance with the circular letter.

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CHRIS CHRISTIE  
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*Commissioner*

September 29, 2014

Mr. John Termyna  
Office of Legislative Services  
Office of the State Auditor  
125 South Warren Street  
Post Office Box 067  
Trenton, New Jersey 08625-3901

Dear Mr. Termyna:

Please accept this letter in response to the Office of the State Auditor's (OSA) September 10, 2014 audit report concerning the New Jersey Department of Community Affairs' (DCA) Division of Fire Safety and Division of Codes and Standards.

DCA is pleased the audit concluded that OSA found the financial transactions were allowable, reasonable and recorded properly. Further, OSA concluded that overall, inspections were done properly and in a timely manner and that DCA's Registration Inspection Management System (RIMS) has adequate controls. Please find below DCA's response to the report's recommendations.

### Inspections

OSA Recommendation: We recommend the division prioritize its resources to reduce the backlogs.

DCA Response: DCA's Division of Codes and Standards does prioritize its human capital to ensure that inspections are completed in a timely manner. Specifically, the division ensures that situations that threaten public exigency are inspected timely and thoroughly. Aside from emergency situations, DCA makes every attempt to inspect liquefied petroleum gas (LPG) facilities and Rooming and Boarding Homes within the appropriate time frame.

Nonetheless, DCA has taken proactive steps to address the small backlogs. With respect to LPG facilities, the division has brought on additional staff to assist in making the inspections. We anticipate that the additional staff will enable us to reduce the backlog that existed at the time of the audit.

To address the small backlog that exists concerning rooming and boarding homes inspections, the division has established a field procedure that facilitates the sharing of information between its teams of physical and social inspectors. The implementation of this procedure has allowed inspectors to more readily identify potentially problematic facilities and initiate inspections timely based on the risk factors present.

The aforementioned field procedure has delivered the desired results. An internal analysis reveals that of the 1,102 facilities that were required to have an inspection conducted within the most recent 13 months, 90 out of the 113 (80 percent) of those not inspected within the 13 months were Type-A facilities. A Type-A facility is a rooming home (e.g., residential facility) only that provides no additional services to the client. Accordingly, a Type-A facility is considered to be the lowest risk in relation to the division's other facilities that require inspections.

In all cases, the division takes immediate action when it is presented with information concerning illegal rooming or boarding homes operating within the state. The division will continue to monitor its inspection schedules and, where possible, make adjustments to ensure the timeliness of inspections.

#### Allowance for Doubtful Accounts

OSA Recommendation: We recommend the division continue to analyze its files and forward the remaining uncollectible portion of the \$33 million to DOES in compliance with the circular letter.

DCA Response: DCA's Division of Codes and Standards takes the necessary steps to enforce its debt collection procedures, as prescribed by the State policy. To safeguard the state's interest while collection attempts are being made, the division also executes legal judgments against the debtor or the debtor's property. Nonetheless, the division is committed to working with the New Jersey Department of Treasury (Treasury) in an attempt to reduce the amount of uncollectible debt on its books. To this end, DCA's RIMS will automate the process that enables the division to transmit data to Treasury for collection. Moreover, DCA will work with Treasury to write-off uncollectible debts, when appropriate.

#### Timeliness of Deposits

OSA Recommendation: The divisions should revise their deposit procedures for all checks they continue to receive so that they are deposited in compliance with the circular letter.

DCA Response: Among other things, DCA's system of internal control strives to ensure compliance with statutes, regulations and policies. Accordingly, DCA will review its procedures concerning check deposits. As noted in the audit report, the implementation of RIMS for revenue collection will greatly enhance the Division of Fire Safety's ability to meet the prescribed timeframe. Nonetheless, both divisions will evaluate the adequacy of their procedures and attempt to dedicate additional resources to this area, if necessary.

As the audit report concluded, DCA has been diligent in discharging its responsibilities to implement a system of internal control that provides reasonable assurances that its Division of Fire Safety and its Division of Codes and Standards are fulfilling their statutory purposes. We appreciate the spirit in which your recommendations are presented and are steadfast in our commitment to continually improve program operations. If you have any questions concerning the above, please do not hesitate to contact my office at (609) 292-6420.

Sincerely,

A handwritten signature in black ink, appearing to read "R. E. Constable, III". The signature is stylized with a large, sweeping initial "R" and a cursive "E".

Richard E. Constable, III  
Commissioner