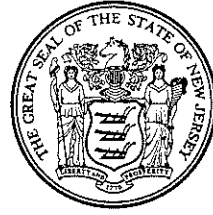

**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**



Department of Agriculture

July 1, 2008 to March 31, 2011

**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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Enclosed is our report on the audit of the Department of Agriculture for the period of July 1, 2008 to March 31, 2011. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells
State Auditor
June 27, 2011

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Scope

We have completed an audit of the Department of Agriculture for the period July 1, 2008 to March 31, 2011. Our audit included financial activities accounted for in the state's General Fund, the Farmland Preservation Funds, the Garden State Farmland Preservation Trust Fund, the New Jersey Federal/State Rural Rehabilitation Fund, and the 1989 Development Potential Bank Transfer Fund. In addition, we performed eligibility testing of the National School Lunch Program.

The mission of the department is to promote and provide high-quality, nutritious, abundant, safe and affordable food, and other agricultural products; to improve the economic viability of the agricultural industry and foster opportunities for farm profitability; to preserve and protect agricultural and natural resources; and to provide leadership and excellence in services to New Jersey agriculture and the general public. Total expenditures and revenues during the audit period were \$1.1 billion and \$858 million, respectively.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the department's programs, were reasonable and were recorded properly in the accounting systems. In addition, we performed specific testing on the self-reported information from beneficiaries of the National School Lunch Program to determine the adequacy of this database in determining funding for other state programs.

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, the administrative code, circular letters promulgated by the Department of the Treasury, and policies of the department. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our testing of transactions. We also read budget messages, reviewed financial trends, and interviewed department personnel to obtain an understanding of the programs and internal controls.

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

Conclusions

We found the financial transactions included in our testing were related to the department's programs, were reasonable, and were recorded properly in the accounting systems. In addition, we noted income and household composition reporting inaccuracies leading to significant eligibility error rates involving the National School Lunch Program which would impact funding for other state programs.

National School Lunch Program

Background

The Division of Food and Nutrition within the Department of Agriculture oversees the administration of the National School Lunch Program (NSLP). State and federal reimbursements are paid to school districts for the cost of free or reduced school lunches provided to eligible students. As of May 2010, there were 428,000 students participating in the program. Student eligibility for these benefits is determined by either direct certification or through an application process. Direct certification occurs when local education agencies (LEAs) perform a matching of their student database against a database from the Department of Human Services containing those who are enrolled in the New Jersey Supplemental Nutrition Assistance Program (NJ SNAP) and/or Temporary Assistance to Needy Families (TANF) programs. Students who receive NJ SNAP or TANF benefits are automatically eligible to receive free meals in the NSLP, and no application is required from the certified household. This accounts for 25 percent of program eligibility. All other students are provided an application for free/reduced lunch at the beginning of the school year which requires income and household composition information to be provided. Completed applications returned to the schools are evaluated by the LEAs to determine if the applicant meets the established federal poverty level criteria for the student to receive free or reduced lunch. Subsequent to this determination and approval of applications, the LEA is required by federal guidelines to perform verification procedures on no more than or less than three percent of the applications approved. Alternate sample sizes are available for LEAs that qualify. The federal guidelines require that those applications deemed "error prone" be selected first for verification when meeting the three percent requirement. Error prone applications are defined as those with income within \$100 per month of the applicable income eligibility guideline. Verification requires the applicant to provide supporting documentation to the information included on their application. The annual statewide verification data compiled by the Department of Agriculture for the 2009-2010 school year disclosed 44 percent of those subject to verification were no longer deemed eligible for free or reduced lunch. Taking into consideration applicants that subsequently reapplied, at a minimum, 37 percent of the verified applications were deemed ineligible. It should be noted that the majority of these changes result from applicants failing to respond to the request for supporting documentation. The federal government which funded \$190 million of the \$198 million appropriated to the program in 2010 is aware of this error rate which is in line with the nationwide error rate of 40 percent.

Income and household composition reporting inaccuracies lead to significant eligibility error rates in the department's National School Lunch Program which would impact funding for other state programs.

We performed independent tests of approved applications by randomly sampling students from ten school districts. We compared information self-reported by the program's applicants with information we were able to obtain through resources of the Department of Human Services, the Department of the Treasury, and the Department of Labor and Workforce Development. Our tests disclosed potential status changes for at least 172 of 746 (23%) applications sampled, 134 (18%) of which would be ineligible. The questions surrounding these applications focused

on the total amount of income claimed by the applicants, as well as proper reporting of all members of the household. We also found 24 percent of the applicants did not provide a social security number, inhibiting our matching process, which may have reduced our overall error rate. If this ineligibility error rate is indicative of the entire population of approved applications, 58,000 students would be ineligible.

Statistics relating to the school lunch program are used for other state funding and policy decisions. For example, the Department of Education's state formula aid per the School Funding Reform Act of 2008 is increased to a school district by between \$4,700 and \$5,700 for each student eligible for the school lunch program. Furthermore, a conflict exists in that school districts perform the review and approval process while also receiving additional funding for each student they enroll in the program.

While the error rate would have an effect on the school aid calculation, provisions in the act require fiscal year 2009 funding levels be maintained which would significantly reduce the current impact of the errors.

Recommendation

We acknowledge that the local education agencies are administering the application process within the parameters mandated by the U.S. Department of Agriculture. However, due to the nature of the self-reporting application process and the error rate, eligibility for the school lunch program should not be used as a determination factor for other state funding and policy decisions.

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June 23, 2011

Mr. John J. Termyna
Office of Legislative Services
Office of the State Auditor
125 South Warren Street
PO Box 067
Trenton, New Jersey 08625-0067

Dear Mr. Termyna:

Thank you for the opportunity to provide written comments relative to the audit report of the Department of Agriculture, for the period of July 1, 2008 to March 31, 2011.

The audit report states the Office of the State Auditor "found the financial transactions included in our testing were related to the department's programs, were reasonable, and were recorded properly in the accounting systems." Our department strives for excellence and strict adherence to state circular letters, the administrative code, and regulations governing all departmental programs.

Also stated, "In addition, we noted income and household composition reporting inaccuracies leading to significant eligibility error rates involving the National School Lunch Program which would impact funding for other state programs." Federal regulation mandates local education agencies (LEAs) verify 3% of the applications approved. The audit report acknowledges this regulation is being met.

Federal regulation requires remaining applications be accepted at face value. The Department of Agriculture ensures applications are processed correctly, and the verification process performed by the LEAs is conducted in accordance with federal regulations. Subsequently, the Department of Agriculture need not implement a corrective action plan.

Relative to the recommendation, the School Funding Reform Act of 2008 was passed by both houses of the legislature on January 7, 2008 and approved into law on January 13, 2008. The recommendation states "eligibility for the school lunch program should not be used as a determination factor for other state policy funding and policy decisions." The Department of Agriculture does not possess the authority to address this recommendation.

We thank the Office of the State Auditor for their professionalism and courtesy while conducting the audit of our department.

Sincerely,

A handwritten signature in black ink, appearing to read "D. H. Fisher".

Douglas H. Fisher