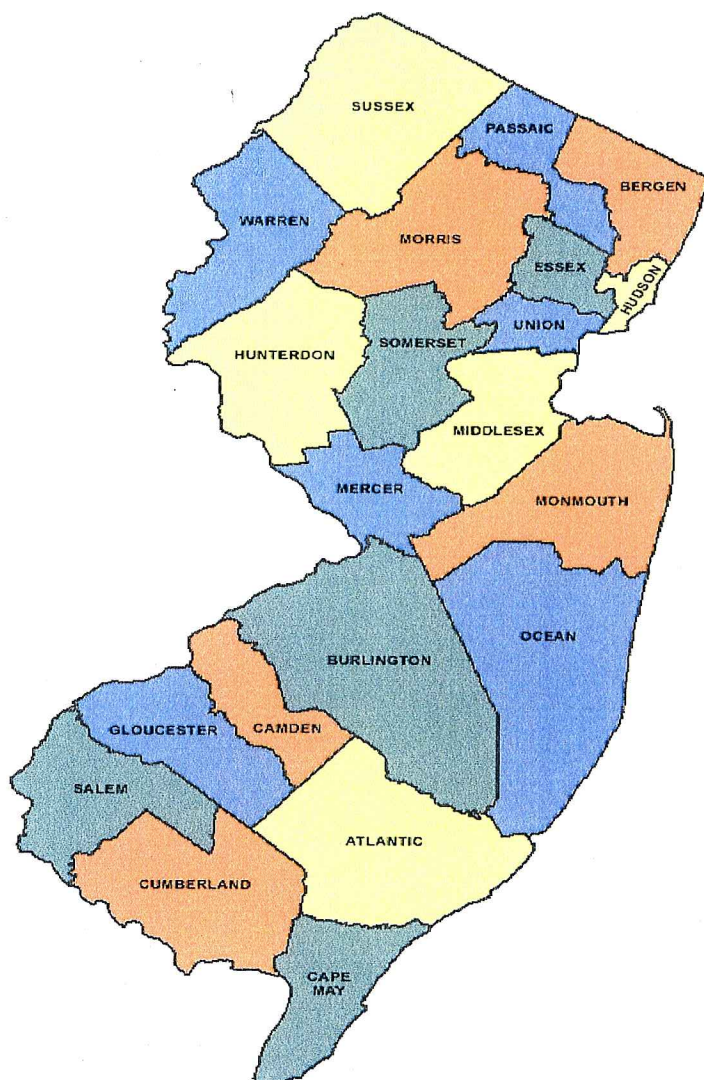

Annual Report of the New Jersey Office of Legislative Services Office of the State Auditor

For the Calendar Year Ended December 31,



2005

Richard L. Fair
State Auditor

2004-2005

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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 2005. In conformance with our responsibilities to perform financial and compliance audits, all state agencies are audited periodically. During 2005, we issued 30 reports which identified \$129.1 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 dark ink, appearing to read "Richard L. Fair".

Richard L. Fair
State Auditor

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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 his 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.

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 1, 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 State Auditor also performs other similar or related duties as required of him by law.

The State Auditor shall personally or by any of his authorized assistants or by contract with independent public accounting firms, examine and post-audit all accounts, reports, and statements and make independent verification of all assets, liabilities, revenues, and expenditures of the state, its departments, institutions, boards, commissions, officers, and any and all other state agencies now in existence or subsequently created.

In addition, at the request of the Legislature 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 2005 we identified \$129.1 million in new cost savings or revenue enhancements. The schedule of cost savings is presented on page 3. In addition, we found that auditees resolved 65 percent of the significant issues noted in our prior reports.

In March 2005 the Legislative Service Commission required the State Auditor to conduct an extensive audit of the fiscal practices and procedures of the major departments and agencies of the State, and to report his findings from time-to-time to the Commission. Some of the issues reported involved roadway authorities funding agreements, drug discounts, medicaid third party liability, statewide debt collection, and medicaid eligibility. Cost savings and revenue enhancements reported to the Commission totaled over \$400 million.

PROFESSIONAL STANDARDS

The Office of the State Auditor's audits are performed in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States. These standards require that our operations be reviewed every three years. In 2005, 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 2005**

<u>REPORT</u>	<u>COST SAVINGS/ REVENUE ENHANCEMENTS</u> (In Thousands)
Department of Corrections	
Adult Diagnostic and Treatment Center	\$200
Department of Environmental Protection	
Water Funds	3,500
Department of Education	
City of Camden Board of Education	717
State Aid	2,500
Department of Human Services	
Division of Developmental Disabilities	
Community Programs - Grants-in-Aid	25,050
Division of Family Development	
General Assistance Program	10,014
Temporary Assistance to Needy Families Intake Process	16
Division of Mental Health Services	
Trenton Psychiatric Hospital	16
Department of the Treasury	
Division of Investment	905
New Jersey City University	429
New Jersey Motor Vehicle Commission	
Field Operations	34
South Jersey Port Corporation	490
Statewide Collections	85,000
Judiciary	
Superior Court of Morris/Sussex Vicinage	<u>220</u>
Total Cost Savings and Revenue Enhancements	<u>\$129,091</u>



National State Auditors Association

June 24, 2005

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

Dear Mr. Fair:

We have reviewed the system of quality control of the State of New Jersey, Office of the State Auditor (the office) in effect for the period June 1, 2004, through May 31, 2005. 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. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, 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 June 1, 2004, through May 31, 2005, has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

Lisa A. Hodges, CFE, CCFM, Team Leader
National State Auditors Association
External Peer Review Team

Karen K. Helderman, CPA, CISA, Concurring Reviewer
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 200 funds and component units which had a total asset value of \$145 billion at June 30, 2005 based on full accrual accounting. Three other financial audits were issued in calendar year 2005.

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. 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 because of their size and complexity. We performed 24 of these audits in calendar year 2005. These audits encompassed \$21.3 billion and \$900 million of expenditures and revenues, respectively.

Information Technology Audits

The objectives of this type of audit are to determine whether the financial data relating to a particular computer system are reliable, valid, safeguarded, and recorded properly. During calendar year 2005, we reported on the Department of the Treasury, Office of Management and Budget, New Jersey Comprehensive Financial System.

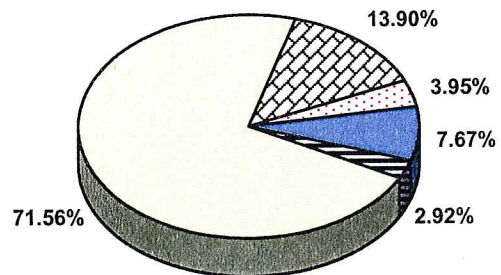
School District Audits

N.J.S.A. 18A:7F-6d authorizes the Office of the State Auditor to audit the accounts and financial transactions of any school district in which the state aid equals 80 percent or more of its net budget for the year. We audited the City of Camden Board of Education in calendar year 2005. This audit encompassed \$300.0 million of expenditures.

AUDIT REPORTS

DISTRIBUTION OF AUDIT HOURS

The distribution of audit hours used in performing audits during calendar year 2005 is depicted on the following chart.



	Financial Audits - 7.67%
	School District Audits - 2.92%
	Agency Audits - 71.56%
	Information Technology Audits and Support - 13.90%
	Legislative Cost Savings Study - 3.95%

AUDIT REPORTS

HOW AND TO WHOM AUDIT REPORTS ARE ISSUED

The findings and recommendations in our reports are developed as results of independent objective audits and are intended to provide accountability to the legislature and recommendations for improvement of government operations. 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 84 professionals and six support staff. All auditors must have a bachelor's degree in accounting or a related field and a minimum of 24 credit hours in accounting. Forty-eight staff members, 57 percent of the professional staff, possess professional certifications or advanced degrees.

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 eight active committees staffed by individuals in various titles to provide guidance in the areas of administration, communication, 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 through reviews of working papers and reports to ensure adherence to professional standards. The quality assurance staff, through its research of accounting and auditing

ORGANIZATION

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, 2005**

STATE AUDITOR

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

ASSISTANT STATE AUDITOR

James Patterson, CIA
Jean Horner, Secretary

ASSISTANT STATE AUDITOR

Thomas R. Meseroll, CPA, CGFM
Deborah S. Tucker, Secretary

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Kurt Zadworney

ADMINISTRATIVE STAFF

Anthony Arena, Support Services Assistant Robyn Boyer, Support Services Assistant Lori Patterson, Support Services Assistant

**ACCOMPLISHMENTS
AND RESULTS**

ACCOMPLISHMENTS AND RESULTS

SUMMARY

This section highlights seven of the more significant audits issued during the past year which individually contained cost savings/revenue enhancements greater than \$700,000 and collectively totaled \$127.7 million. The office also issued 7 reports with individual cost savings less than \$700,000 totaling \$1.4 million.

Our reports also contain findings addressing areas of noncompliance with laws or regulations, weaknesses in internal controls, and economies and efficiencies to improve operations. Seven audits with more significant findings are included in this section.

All reports issued in calendar year 2005 are identified on a schedule on pages 37 to 38 and are available for review on our internet website.

STATEWIDE COLLECTIONS

Lack of Statutory Authority

There are no statutes, regulations, or executive orders that require departments to utilize the Set Off of Individual Liabilities (SOIL) program, the collection tools offered by the Division of Revenue, or the Division of Law's collection services. We further noted that there are no requirements that delinquent accounts be forwarded to the Division of Revenue or Law. In addition, there are no requirements that address the reporting of collection activity and receivable balances by departments, which would enable an assessment of the effectiveness of the state's overall collection efforts for delinquent receivables. Our review of departmental usage of available collection efforts disclosed the following:

- A review of the SOIL program disclosed that 42 state agencies utilized the program. These agencies reported 644,000 cases with a total debt of \$1.1 billion. Our further review of receivable debt processed by the Division of Law disclosed that 69 percent of the division's case load currently eligible for SOIL did not appear on the SOIL database.
- A review of the Accounts Receivable Collections Bureau data disclosed that as of July 1, 2004 only nine departments were using the debt collection contractors.
- Department of the Treasury, Division of Administration received accounts receivable information from 27 agencies in ten departments for the quarter ended June 30, 2004. There were no specific instructions on the format or structure of the receivable data that should be submitted by an agency or department. No analysis is performed on the information received and the Department of the Treasury, Division of Administration has no means to determine if the data is complete.

The above conditions affect the state's ability to collect outstanding amounts in an effective manner. Analysis of collection rates for fiscal year 2004 revealed that contract vendors collected \$1.9 million resulting in a collection rate of less than one percent, the Division of Law collected \$9.7 million resulting in a 1.2 percent collection rate, and SOIL collected \$20 million resulting in a collection rate of 1.8 percent.

Garnishments and Other Collection Methods

While contract language of the vendors collecting debts for the Department of Revenue permits the garnishment of wages, bank levies, real estate liens, and asset seizures, none of these collection tools are currently being utilized.

Analysis of SOIL data for potential garnishments disclosed that there were over 68,000 individuals who had wages in excess of \$466 million. The debt for these individuals exceeded \$127 million.

STATEWIDE COLLECTIONS

Potential garnishments are not always initiated by the Division of Law and garnishment data is not updated to reflect the debtor's change in employment status. Analysis of 2,300 cases with quarterly earnings of \$5,000 or more disclosed that 79 percent had not made a payment in the six months prior to our review. Even though 600 of these cases had garnishment designations, 405 had no reported payments for the same period.

Analysis of collection rates for fiscal year 2004 indicated that current collection efforts resulted in a collection rate of less than two percent. If the state would increase its efforts twofold, the result would be at least \$32 million in additional collections. Additionally, the enforcement of wage garnishments would result in collections of at least \$53 million for the first quarter of enforcement.

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
COMMUNITY PROGRAMS – GRANTS-IN-AID**

Community Care Waiver Billing

The Community Care Waiver (CCW) is a federal Medicaid program that reimburses the division for up to 50 percent of the cost of certain community based services. Persons currently receiving supplemental security income (SSI) meet the eligibility requirements for the CCW and should be enrolled in the program. Those not receiving SSI need to complete an application for financial determination. This application is referred by the division to the state's Institutional Services Section (ISS) of the Division of Medical Assistance and Health Services (DMAHS) to determine eligibility.

During fiscal year 2004 there were 10,181 clients receiving CCW services. Of those, 8,005 have been determined to be eligible for reimbursement and 2,176 were not reimbursed. The division requests reimbursement for eligible services from the Medicaid program by submitting bills, usually monthly, to Unisys, the fiscal agent. The bills are submitted using a Medicaid approved interim rate. Once final rates are approved there is a retroactive adjustment due to the rate change.

Federal reimbursements are dependent upon several factors. These include the completion of the proper application, monitoring and recording of eligible clients, timely submission of attendance data and claims, accurate and timely rate setting for each service, and the correction and resubmission of denied claims when necessary. We found that the division has not fully maximized their federal reimbursement.

Eligibility

We reviewed information for clients the division declared ineligible and found many clients who appear to be CCW eligible. From the list of 2,176 non-reimbursed clients, we identified 1,240 whose value of services received in fiscal year 2004 exceeded the department's financial breakeven point for eligibility. From these 1,240 clients, we selected 100 clients for initial review using the department's statewide lookup system. Only nine had indication of sufficient or recent documentation of agency review. We suspected there were clients that had not been recently reviewed who could be eligible for reimbursement.

We then selected 26 of these clients for detailed examination of case files with both the fiscal and eligibility coordinators. We were able to review these cases and came to these conclusions in a short period of time.

- Seventy-three percent of these files did not have recent information regarding client finances or CCW eligibility. It does not appear that fiscal coordinators are monitoring or considering eligibility on a routine basis.

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
COMMUNITY PROGRAMS – GRANTS-IN-AID**

- Over 50 percent of the files examined appear to be CCW eligible. Applications will be sent as a result of our review. For example, there was one client that lived in a group home for 14 years, from 1987 to 2001. This client was not referred for eligibility until 2001. The client is still in a group home and eventually became eligible in 2004.
- Nineteen percent were considered ineligible because the client or agency was not cooperative in completing an application.
- The review found six of the 26 were already collecting SSI benefits meaning they were automatically CCW eligible, but were never billed for reimbursement. One of these clients has lived in a group home since 1987. For eleven of those years he was collecting SSI but was never included in the Medicaid billing.

As a result of our review of these 26 clients, we estimate the division has a cumulative loss of over \$1 million by not sufficiently monitoring these cases for CCW eligibility. We would expect there to be a considerable amount of additional lost revenue attributable to the other 1,200 clients on the list which we have not reviewed. If the results of our review were indicative of the eligibility rate for the remaining 1,200 clients, the division may be eligible to bill Medicaid \$12 million annually.

Billing Rates

Prior to a change in the administrative code effective December 2003, clients and agencies were not required to cooperate with the CCW application process before receiving services. Current clients can still receive services even though they have refused to complete an application.

When billing for federal reimbursement for the CCW program, the division uses both interim and final rates that are approved by DMAHS. Final rates reflect actual costs and are calculated after the division gathers sufficient cost and attendance data for the fiscal year. In the absence of final rates, the division is authorized to use interim rates which attempt to approximate costs and enable the division to claim reimbursement until final rates are calculated.

Once finalized, a retroactive adjustment is made for the difference between what was billed using the interim rate and the approved final rate. Since final rates are generally higher than interim rates, this adjustment results in additional federal revenue for the state. Ideally, final rates should be calculated soon after the end of the fiscal year.

During fiscal year 2004 the department completed the final rates for fiscal years 1999 and 2000 for habilitation and personal care services, the two largest rate services. These final

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
COMMUNITY PROGRAMS – GRANTS-IN-AID**

rate adjustments resulted in an additional \$26 million of federal funds for the state. Final rates for habilitation and personal care have not been completed for fiscal years 2001 through 2003. These rates are not prepared timely since they are based on attendance and expenditure reports from contracted agencies and not all the agencies have submitted the required reports. We project that when final rates are prepared for these three fiscal years the state will receive an additional \$10 million of federal funding.

Attendance Reports

Under the guidelines of the CCW program, the division must submit eligible claims within one year of the date of service to be reimbursed. These claims are based on attendance reports received from the division's contracted agencies that provide the CCW services. When attendance data is not received or is received later than one year after the services are rendered, the reimbursement for the cost of these services can not be claimed. Our review disclosed that due to attendance records that have not been received prior to March 2004 there is approximately \$1.2 million of lost federal funding for fiscal year 2004, \$750,000 for fiscal year 2003, and \$1.1 million for fiscal year 2002. We did not review information prior to fiscal year 2002. The division has recognized the problem and is converting to electronic submission of attendance records.

Currently, 60 percent are reporting attendance on this web based system. This however does not solve the problem of those that fail to report timely or at all. The division has also applied to the DMAHS for approval to submit claims going back a second year.

Since billings are dependent on attendance data, we visited four group homes to review the accuracy of attendance reporting. We found that two of the four monthly attendance records for March 2004 contained errors resulting in billings that are incorrect. These records need to be reviewed by case managers during their site visits.

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF FAMILY DEVELOPMENT
GENERAL ASSISTANCE PROGRAM**

Intake and Redetermination Procedures

Work First New Jersey regulations require welfare agencies issuing General Assistance (GA) benefits to maintain a permanent case file for all clients. These files must contain a copy of a form of identification, a signed application for benefits, a work registration form, and documentation of eligibility redetermination every six months. The risk of program benefits being paid to ineligible individuals increases when agencies do not follow these control procedures.

We reviewed case files at 11 of the 15 municipal welfare agencies using zero balance accounts. Based on our testing, the agencies generally followed required procedures with the exception of the City of Newark whose expenditures represented 82 percent of these municipalities. The city did not consistently follow procedures during the initial intake process and did not perform redeterminations every six months. The city's case files also did not contain documentation to support payments in 35 percent of the cases reviewed. Based on the total annual statewide assistance expenditures during 2004, we estimated \$8.6 million in payments did not have supporting documentation in the case files.

The following table shows our sample error rates for the City of Newark and for the other ten municipalities reviewed.

Error Rates			
<u>Control Procedure</u>	<u>Newark</u>	<u>All Other</u>	<u>Total</u>
Client's identification was documented	20%	10%	17%
Signed application was filed	34%	0%	26%
Work registration form was filed	51%	0%	42%
Six-month redetermination was documented	91%	6%	74%
Benefit payment was documented	35%	0%	27%

A high caseload and a lack of effective monitoring were factors contributing to the city's inability to properly document that procedures were performed and payment amounts were supported.

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF FAMILY DEVELOPMENT
GENERAL ASSISTANCE PROGRAM**

In one example of how a lack of controls led to improper payments, the City of Newark continued to pay benefits to a client who was serving a sentence in a state prison. When asked for this file the city was unable to locate it. State law prohibits individuals from receiving public assistance while they are incarcerated. The city continued to issue these benefits because the welfare agency did not perform a redetermination after six months. The agency also did not utilize a system edit that would have placed the case on hold until the redetermination was completed. This file was the only one not available for our review. The case has been referred to the Division of Criminal Justice.

Monitoring of Income

Work First New Jersey regulations limit most GA clients to earned income of \$210 a month to continue receiving full monthly benefits. Clients are also prohibited from collecting unemployment or disability benefits while receiving GA. The regulations further provide for welfare agencies to conduct a monthly case review to determine if there has been a change in clients' income. During this review, clients are asked to sign an Authorization and Case Review (ACR) Card and to report any wages received.

Municipal welfare agencies must rely on the information provided by the client during this review because they do not have access to the Department of Labor's (DOL) quarterly wage reporting system which is used by the county welfare agencies. This limits the agencies' ability to independently verify clients' incomes and it increases the risk of benefits being paid to clients who are employed. We tested controls over income monitoring and also compared GA check registers to DOL data systems and noted the following results.

- We statistically sampled cases in which clients appeared on the GA check register and on DOL's wage reporting system during the same calendar quarter. Based on the results of the sample, we estimated \$1.3 million in statewide GA benefits were paid to clients while they earned wages exceeding the limit. We reviewed these clients' ACR cards and noted no income was reported to the agency during the monthly review. For example, benefits totaling \$21,000 were paid to a client and the Newark shelter where he resided. This client earned wages of \$32,000 during the same time period. This issue has been referred to the Division of Criminal Justice.
- We matched the GA check register with DOL records and noted benefits of \$114,000 were paid to 127 individuals collecting unemployment or disability benefits.

**DEPARTMENT OF ENVIRONMENTAL PROTECTION
WATER FUNDS**

Escrow Balances

The department had entered into agreements with the Army Corp of Engineers (ACOE) for various projects dating as far back as the 1980's. The department's estimated share of the costs were placed in escrow accounts for the ACOE to draw on as projects proceeded. Our review disclosed that the escrow accounts have not had withdrawals from 3 to 16 years. Department officials state that all eight projects are complete. The balance of funds in the escrow accounts total \$3.5 million. The source of the funds for these accounts include not only the Natural Resource Fund (\$600,000) which was in our audit scope, but also the General Fund (\$1.5 million), Beaches and Harbor Fund (\$1.3 million), and the Shore Protection Fund (\$100,000). The funds can not be released from escrow without the bank receiving a signed certification from the ACOE and the state. The department has not been able to provide evidence that they have requested the certification from the ACOE. Releasing the funds to their source would allow them to be put to use on other projects.

**DEPARTMENT OF EDUCATION
STATE AID**

School Choice Aid

The Interdistrict Public School Choice Program was established as a 5 year pilot program starting with fiscal year 2001. The program increases educational opportunities for students by providing the option of attending a public school located outside their district of residence without paying any tuition costs. Parents must notify the district of residence of the student's intention to participate in the program and submit an application to the choice district for acceptance. Choice districts are approved by the Commissioner of Education. There were 15 choice districts during fiscal year 2005.

Program expenditures during fiscal years 2004 and 2005 were \$6.5 million and \$8 million, respectively. The department was appropriated \$8 million for the program in fiscal year 2006.

Choice districts receive a fixed amount of aid per student based on a projected enrollment. Our review disclosed that most districts had projected enrollments that were greater than the actual enrollments. In fiscal year 2004 the total program projected enrollment was 766 students while the actual enrollment was 623. In fiscal year 2005 the projected enrollment was 929 while the actual program enrollment was only 773. One district received \$166,000 for 20 projected students but only one student actually attended. Our review also noted that two districts had an actual enrollment that was greater than the projected enrollment. The department does not adjust payments based on actual enrollment. If choice aid payments were adjusted for actual enrollment, the department could have saved a total of \$2.5 million during fiscal years 2004 and 2005.

**DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT**

Soft Dollars

The division paid commissions totaling \$33 million during fiscal year 2005 for securities transactions. The division frequently enters into soft dollar arrangements with its brokers. Under these arrangements, the division purchases trade execution and other services related to investment research as a package. However, the division also procures research services and financial data with state appropriations. These services are available for payment through brokers and can be paid with soft dollar commissions. We identified expenditures for research related services totaling \$425,000 and \$480,000 for fiscal years 2004 and 2005, respectively, that could have been paid using soft dollar arrangements. These services would be allowable under section 28(e) of the Securities Exchange Act of 1934 which defines allowable uses of soft dollars.

CITY OF CAMDEN BOARD OF EDUCATION

Internal Controls

Payroll expenditures totaled \$150 million during fiscal year 2004. Management is responsible for establishing and enforcing internal controls that safeguard assets from loss or unauthorized use. Proper segregation of duties and maintenance of accurate and complete documentation are necessary to assure the proper use of resources as authorized by the board. Currently, conditions exist which weaken this assurance and could lead to the misstatement of payroll records and the payment of unearned wages.

Approved time records were not always available to support payments to employees. The regular pay time for four of 20 sampled employees could not be traced to time sheets for a selected pay period. In addition, the time sheets reviewed for seven of the remaining 16 employees were not approved. Personnel files were also not available for three of the 20 sampled employees and we therefore could not verify their starting salaries and current salary guide placement.

The paycheck distribution and payroll processing functions are not properly segregated. The same individuals who process the payroll also receive and distribute the paychecks. These individuals also have the ability to add employees to the payroll. Furthermore, since terminated employees cannot be removed from the payroll system, these individuals can change the employment status of former employees from inactive to active without independent review or authorization. The lack of segregation of duties presents a potential for loss because a phantom employee could be added to the payroll and the check could be removed prior to check distribution without being detected.

Separated employees were not removed from the active payroll in a timely manner. We tested the final regular pay of 361 employees who terminated employment between June 30, 2002 and December 31, 2003 and found that 52 were overpaid a total of \$90,000 after their separation. In addition, 34 were paid a total of \$23,000 for extra duties performed more than two months after their termination. Some payments occurred over a year after the employee terminated. Documentation was not readily available to determine whether any of the payments for extra duties were proper.

Teachers were paid approximately \$4.7 million in calendar year 2003 for extra duties. Our test of ten employees who received more than \$10,000 each in extra pay disclosed that there was no supporting documentation on hand for \$67,500 of the \$128,000 tested. In addition, there are no procedures to monitor those employees who perform multiple extra pay jobs to ensure time claimed for extra pay duties does not overlap.

Leave Records and Payments for Unused Leave

The Human Resources (HR) department maintains employee leave time electronically on the time and attendance component of the district's new financial system. Manual records for most employees are also maintained at the individual schools and other

CITY OF CAMDEN BOARD OF EDUCATION

district facilities. We tested the electronic leave records for 17 employees and found that 13 had errors ranging from one to 30.5 days. The errors occurred because current year leave time allotments and/or carry forward balances were inaccurate. In addition, our review of manual leave records for 21 sample employees disclosed that 18 had taken a total of 71 sick days that were not posted to the system.

Employee contracts provide for payment of a fixed dollar amount for each unused sick day at the time of retirement or death. Employees are credited with a full year's sick leave on the first day of the fiscal year or school year in anticipation that they will be employed the entire year. If an employee terminates employment prior to end of the year, the district does not prorate the leave for the partial year of employment. Although the district employment agreements are silent as to the prorating of leave time for partial-year employment, New Jersey state government requires such proration. Upon retirement, an employee's sick leave balance should be obtained from the system, prorated if applicable, and multiplied by the contractual rate to arrive at the sick leave payment amount.

We tested 152 unused sick leave payments totaling \$1.7 million and found errors on 90 payments including overpayments of \$154,000 and underpayments of \$26,000. Employee balances on the system at the time of termination were utilized for testing purposes. The errors occurred because leave time is not properly maintained on the system and there is no adjustment of leave time for a partial year of employment. In addition, there is a lack of supervisory review of the amount to be paid. The HR department calculates each payment and forwards a "payroll change notice" to payroll which specifies the amount to be paid. The payroll change notice requires various approvals but documentation supporting the specified number of days to be paid is not provided for review.

Non-teaching staff also receive payment for unused vacation days upon retirement or death. As with sick leave, employees are credited with a full year's vacation leave on the first day of the fiscal year or school year. As a result, their entitlement for that year should be prorated for any partial year of employment. We tested 13 payments totaling \$70,000 to retirees and deceased employees for unused vacation leave and found overpayments totaling \$55,000. The overpayments occurred because leave time was not prorated for any partial year of employment and the district calculates vacation leave by dividing the employee's salary by 240 days. This methodology results in an overpayment of approximately eight percent as there are actually between 260 and 262 working days in a year.

Leave of Absence Without Pay

Lack of formal policies and procedures weaken the internal control environment of an organization. The board's current policy does not specify how salaries or leave time credits should be calculated for employees who are on a leave. Contractual provisions are not specific on this topic as well.

CITY OF CAMDEN BOARD OF EDUCATION

Board approval is required for all leave without pay. A total of 104 employees received board approval for leave without pay from January 2003 through June 2003. We tested 54 of these employees and found that the annual salary for 35 had been overpaid by a total of \$233,100 and the annual salary for 13 was underpaid a total of \$17,900 during fiscal year 2003. These errors occurred because of a lack of a formal policy and supervisory review of the work of the payroll clerks to ensure deductions were properly calculated. Our calculation was based on each employee's daily salary and work calendar. For example, teachers were required to work 189 days in fiscal year 2003. Their daily salary was determined by dividing their annual salary by 189 days. Their daily salary was then multiplied by the number of days they were in a pay status to arrive at their total wages earned. This amount was then compared to the total wages paid.

Employees are credited with a full year's sick leave on the first day of the fiscal year or school year in anticipation that they would work the entire year. Leave time should not accrue when an employee is on a leave of absence. The district, however, does not prorate leave time for any partial year of employment due to a leave of absence. As a result, we found that sick leave balances for 42 sampled employees were overstated, resulting in a potential cost to the district of \$63,000.

Workers' Compensation

The state provides for the continuation of full pay for up to one year to state employees who are injured or become ill on the job and the benefits are subject to income tax. After a year, employees are transferred to the state's Workers' Compensation (WC) Program. WC benefits are paid at a rate of 70 percent of the worker's salary up to a weekly maximum of \$650 for calendar year 2004. WC benefits are exempt from income tax. The district also provides for the continuation of full pay for up to one year to employees who are injured or become ill on the job. However, these payments are considered WC benefits and are exempt from income tax. The employee's net pay is therefore greater than their regular compensation. After a year, the non-taxable benefit is reduced to 70 percent of the worker's weekly wages up to the current state maximum of \$650. First year benefits provided under the district's WC program during calendar years 2002 and 2003 totaled \$551,000. The district could have saved a minimum of \$165,300 if all WC benefits were paid at the rate of 70 percent of the worker's salary up to the weekly maximum. We further noted that written procedures covering the district payment plan methodology were not available.

The district contracts with a third party administrator to operate their WC program. In addition to the monthly service fee, the district also reimbursed the administrator \$1.4 million in calendar year 2003 for claimant medical costs, legal fees, indemnity costs, and settlement costs. An adequate review of the monthly billings cannot be performed prior to payment because the billings do not clearly specify the claimant and corresponding services. The lack of an adequate review could result in the payment of duplicate billings or inaccurate program costs.

CITY OF CAMDEN BOARD OF EDUCATION

The New Jersey Department of Education, Office of Compliance Investigation completed a review of the district's WC program for the period July 1, 1999 to November 30, 2002. The report indicated that there are many instances of multiple claims being filed by the same employee for a similar injury or accident which results in recurring WC costs. The report recommended that the board institute procedures to ensure that a functional capacity examination be performed for employees who had serious injuries prior to returning to work. The district has not complied with this recommendation.

Food Service Receipts

District elementary schools provide prepackaged meals to students. Applications are completed and reviewed to determine if students qualify for free or reduced-priced meals. District policy requires students who don't qualify for free meals to pay cash or charge their meals and be billed monthly. Internal controls are not adequate to provide management with reasonable assurance that all fees due are collected and deposited intact. There are no written policies and procedures governing the collection, deposit, and accounting of elementary school food service receipts. Written procedures are necessary to establish proper internal controls over cash collections.

Meals served to paying students at 17 elementary schools from September 2003 to February 2004 were valued at \$30,900 while only \$7,700 was deposited in the bank as of April 2, 2004. Discrepancies noted for two schools were considerable. Meals with a combined value of \$12,500 were served at the two schools and only \$200 was deposited. We observed the food service operations at one of these schools and found that there was no expectation for the students to pay. We also found no evidence that accounts receivable records are maintained.

Our prior audit disclosed that food service receipts were not deposited timely. Our review found that this condition still exists. We randomly selected 12 days' receipts for various middle and high schools and found that seven were deposited from five to twelve working days after they were collected.

**DEPARTMENT OF LAW AND PUBLIC SAFETY
DIVISION OF CRIMINAL JUSTICE
OFFICE OF THE INSURANCE FRAUD PROSECUTOR**

Non OIFP Salary Charges

Our review found that the Department of Law and Public Safety, Division of Criminal Justice (DCJ) had not established an adequate cost allocation system to support the salary charges to the Office of the Insurance Fraud Prosecutor (OIFP) for work performed by employees outside of the office. The non-investigative division employees are not required to maintain time sheets reporting actual hours worked on OIFP related activities. Therefore, the division could not provide documentation for the methodology used in allocating these salary expenditures. As a result, the following salary costs could not be verified to determine if they were appropriate.

The DCJ provides administrative support services for OIFP such as budget and finance, human resources, administration, information and technology, and motor vehicles fleet management. The division could not support charging 100 percent of the salary expenditures for 21 employees in these units to OIFP. Clearly these employees provide services to the OIFP, but they also provide services to other bureaus within the division. Accordingly, only a portion of their salaries should have been allocated to the OIFP. For example, we found seven of nine employees' salaries in the division's Human Resource section were charged to OIFP even though the OIFP only represents 30 percent of the staff at DCJ. The total salaries and fringe benefits charged to OIFP for these 21 employees totaled \$1.7 million for fiscal year 2003 and \$1.9 million for fiscal year 2004.

In addition, we found 100 percent of the salaries for 23 employees in certain legal and investigative units were charged to OIFP even though OIFP only utilizes these services on occasion. It did not appear appropriate for the department to allocate these individuals' entire salaries to the OIFP.

Salary and fringe benefit costs were \$2.2 million in fiscal year 2003 and \$2.4 million in fiscal year 2004 for these employees.

We further noted that 60 percent of the salaries and fringe benefits totaling \$493,000 for 13 employees from the division's Office of Public Information, Intelligence Database Initiative and other units were allocated to the OIFP. The division could not provide the methodology used in allocating these expenditures nor how salaries associated with the Intelligence Database Initiative related to insurance fraud activities.

The OIFP funded a unit of eight state troopers during our audit period. The expenditures for this unit were \$868,000 in fiscal year 2003 and \$951,000 in fiscal year 2004. In January 2005, the OIFP discontinued funding the State Police unit. After reviewing monthly activity reports provided to OIFP by the unit, we could not determine whether the troopers assigned to the unit worked solely on insurance fraud related matters. Our review of assignment records found discrepancies for one trooper funded by OIFP in fiscal year 2003. According to the records maintained by the Division of State Police

**DEPARTMENT OF LAW AND PUBLIC SAFETY
DIVISION OF CRIMINAL JUSTICE
OFFICE OF THE INSURANCE FRAUD PROSECUTOR**

(DSP), the trooper was assigned to different units at which time salary costs of \$19,000 were not applicable to OIFP.

Additionally, the OIFP was charged \$75,000 for the training costs of three troopers. Neither the DCJ nor the DSP could provide invoices for these expenditures. According to the DSP sources, the charges to the OIFP were a general cost of training a state police recruit at the academy and did not relate to any specific trooper assigned to the OIFP unit. These training costs should not have been reimbursed.

OIFP Salary Expenditures

OIFP employees in investigative titles are required to submit hourly time sheets accounting for time worked on the various cases. The division did not properly adjust salary expenditures for the hours worked on non-insurance fraud activities. Based on OIFP records, approximately 6,300 hours in calendar year 2003 and 7,500 hours in calendar year 2004 were related to work performed on non-insurance fraud matters and should not have been included as costs relating to insurance fraud activities. We estimated the salary overcharges to be \$195,000 and \$234,000 in calendar years 2003 and 2004, respectively.

Other Issues

In fiscal year 2004, the OIFP was charged for the delayed pension enrollment of a division employee. Since the individual was not enrolled timely into the pension system, the division was responsible for 50 percent of the pension contributions. Pension contributions from 1987 totaling \$19,000 were improperly charged to the OIFP for this employee. The OIFP should not be responsible for the department's omission.

State personnel procedures were often bypassed by the department using OIFP salary position numbers to fund positions when DCJ position numbers were not available. We identified cases where individuals who had not worked on insurance fraud related matters were moved on and off OIFP payrolls during various pay periods to accommodate promotions or other personnel actions. Salary adjustments were not made in certain cases resulting in individuals being improperly charged to the OIFP.

The department has a responsibility to the insurance industry to ensure the accurate accounting of operating costs for the OIFP since these activities are funded by the industry. Pursuant to N.J.S.A. 17:33A-30, "the Attorney General shall annually, on or before October 1, certify to the State Treasurer an amount allocable to the expenses of the Office of the Insurance Fraud Prosecutor for the preceding fiscal year..." Our review found that there was no certification of expenditures by the department. A fiscal manager at the division level reports the expenditure amounts relating to the OIFP to the Department of Banking and Insurance.

**DEPARTMENT OF STATE
SELECTED PROGRAMS**

Grants

During fiscal year 2004 the Department of State disbursed \$28 million in grants to approximately 420 grantees. We identified an overall need to improve monitoring of the grant award and grantee expenditure review process to ensure that grants were awarded and spent in accordance with grant terms and objectives. We also identified documentation and program review issues with three of the grant programs. During fiscal year 2004 management established an internal audit function within the department's Division of Administration to provide an independent review of grant program compliance and accountability issues. Presently the internal audit function is being performed by one individual and the review of grants for compliance and accountability issues are not up-to-date. Due to the untimeliness of the reviews, management cannot utilize the information in determining future grant awards, nor can it timely determine whether or not grant funds were properly disbursed by the grantees. Given the amount and nature of the grants being disbursed, management should reallocate resources to expand the internal audit unit. A properly staffed independent audit unit could effectively achieve management's grant program objectives, perform special projects, and strengthen internal controls.

The Faith Based Initiative Program objective is to create greater access to funding and other resources for faith based organizations. During fiscal year 2004, the department disbursed \$2.3 million to 65 organizations. In addition, federal funding of \$1 million was disbursed to organizations to conduct intensive outreach to individuals whose Temporary Assistance to Needy Families (TANF) funding stopped. These grants are known as Post-TANF awards. Grant monitoring procedures include quarterly expenditure reports from the grantees, site visits by department personnel, and reviews of independent audit reports. Our audit noted that documentation was not on file to support visitations by departmental staff, nor were independent audit reports on file. Management stated that monitoring procedures have decreased over the past year due to a decrease in personnel.

The Martin Luther King (MLK) Commemorative Commission provides grants ranging from \$1,500 to \$5,000 to non-profit organizations in New Jersey that promote the ideals, principles, and legacy of Dr. King. During fiscal year 2002 and 2003, the grant program disbursed \$51,700 to 13 organizations and \$35,000 to eight organizations, respectively. There were no grants awarded during fiscal year 2004. Management's control procedures require grant applications be reviewed, scored, and processed by committee members or review boards. Our review of fiscal year 2002 and 2003 activity disclosed no evidence of this oversight. We also noted that once a grant is awarded and approved for funding, 75 percent of the grant amount is disbursed to the grantee. The remaining 25 percent is disbursed once the Commission receives the final report and original receipts. It was determined that five of the 13 grantees in fiscal year 2002 and one of the eight grantees in fiscal year 2003 did not submit support for their expenditures while still receiving their final grant payments.

DEPARTMENT OF STATE
SELECTED PROGRAMS

The MLK Commemorative Commission also provides grants designed to help young people by fostering positive environments in their schools and communities. These grants, known as the V-Free Mini-Grant Program, have a maximum dollar amount of \$3,000. During fiscal year 2004, \$72,000 was awarded to 26 grantees. The grant committee, consisting of reviewers selected by the Director of the MLK Commemorative Commission, evaluates the applicants to determine certain criteria are met. Points are awarded based upon the criteria, and those with the highest scores receive grant funding. We reviewed 100 percent of the reviewers' score sheets during fiscal year 2004. We noted that four applicants were in an approved grant status and then later removed because the scores provided by the reviewers did not agree with the scores posted to the spreadsheet used to determine grant eligibility. One applicant was placed in grant status because the scores on the spreadsheet were greater than the reviewers' original scores. We also noted discrepancies with five other applicants' scores, however their grant status remained unchanged. We could not review the scores for one applicant because the file was missing. To ensure the integrity of the program, awards should be made based on established criteria as documented on the score sheets. All changes and corrections should be documented.

**DEPARTMENT OF THE TREASURY
OFFICE OF MANAGEMENT AND BUDGET
NEW JERSEY COMPREHENSIVE FINANCIAL SYSTEM**

Circumvention of the Approval Process

The New Jersey Comprehensive Financial System requires multiple levels of approval to be applied to a transaction in order for it to process. These different levels are split between multiple employees as part of the internal control process. One major factor which can prevent an internal control system from being effective is circumvention of controls through collusion. An analysis of applied approvals was performed to assess the effectiveness of this internal control. This analysis identified 12,086 transactions in which the applying of approvals occurred within a short time frame of each other. We tested 3,052 of these transactions by comparing the 102 users involved in these transactions with their leave records to see if a user was out the day an approval was applied under his identifier. We found that in 157, or five percent of the transactions tested, 16 users had seven or more hours of leave time charged in the Time and Leave Reporting System (TALRS) on the day their identifier was used to apply approvals. Of these questionable items, 108 required no other approvals. These 108 transactions were comprised of 76 debits totaling \$2.5 million and 50 credits totaling \$21 million. These test results indicate user passwords are either intentionally shared or used without the owner's knowledge.

**DEPARTMENT OF THE TREASURY
OFFICE OF MANAGEMENT AND BUDGET
SELECTED PROGRAMS**

Asset Valuations

The Department of the Treasury, Office of Management and Budget (OMB) is currently in the process of implementing the Land, Building, and Asset Management (LBAM) system. This system is designed to maintain an accurately valued inventory of the state's fixed assets. This information in turn will be used to support the financial statement data required for the Comprehensive Annual Financial Report (CAFR). LBAM currently contains only land information which has a value of approximately \$1.8 billion for 16,800 records. LBAM records were populated with the Division of Taxation 2003 MOD-IV database which contains property assessment information from the municipal tax assessors' offices. OMB matched MOD-IV data to the Division of Taxation's Sales database providing acquisition cost information for properties obtained since July 1988. The value of land obtained prior to July 1988 and land donated or purchased for \$1,000 or less between July 1988 and June 2003 was deflated using Gross Domestic Product (GDP) indices. Properties identified without acquisition dates were deflated to the default date of January 1967. This date was chosen based on the establishment of land acquisition initiatives. GDP indices were applied to 14,400 land records, representing 86 percent of the total number of land records.

We obtained a download of the LBAM deflated properties and summarized data to identify properties with large deflated values. We matched 30 deeds with a total consideration of \$10.8 million per the State of New Jersey Archives records to 79 corresponding deflated LBAM records totaling \$338.7 million. Based on this match it appears that the valuation methodology utilized has overstated land values by approximately \$327.9 million. In one instance, deeds representing Island Beach State Park were overstated by \$180.9 million using the GDP deflator methodology. Based on our review OMB should not use the GDP deflator to value land.

The Division of Taxation maintains an electronic record of all property sales since July 1989. This sales database provided an acquisition cost for LBAM properties acquired during this time period. We tested 23 LBAM records greater than \$950,000 that had identical dollar amounts to determine if duplicate amounts were recorded in the system. Properties acquired by the state may have multiple block and lot designations in adjacent municipalities. Our testing disclosed the sales database captured the entire acquisition price instead of allocating it over the deeded property. This resulted in duplication of amounts for certain LBAM records. We noted a total overstatement of approximately \$20.1 million out of the \$39.5 million tested.

**HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
ADMINISTRATIVE EXPENDITURES**

Travel and Official Reception Expenditures

Adequate internal control procedures are essential to ensure that costs are reasonable and proper, and processed in compliance with established rules and regulations. Without these controls there is an increased risk for misuse of state funds.

During the audit period, the authority expended over \$440,000 for travel and official receptions. Our test of 237 travel and official reception transactions totaling \$153,500 disclosed that these transactions were not always supported by sufficient detail documentation nor always in compliance with established policies and procedures. We noted exceptions in 31 percent of the transactions tested. Generally, employees who were issued a travel charge card were not required to submit itemized receipts to support their charges. In most instances, the only documentation was a signed slip showing the total amount charged. Details of our review are as follows:

- Itemized receipts were not submitted to support 129 business meals totaling \$16,300. In most cases names, titles, and/or the purpose of the meeting were not provided. It appears that these business meals often included college financial aid officers with whom the authority had or sought to have a business relationship. Other insufficiently supported transactions in our sample included: train tickets (\$1,400), a personal cell phone bill (\$400), airfare (\$400), and airport parking (\$200).
- The authority reimburses employees for meals based on established federal per diem rates. In seven instances, employees claimed meal reimbursements of \$650 in excess of the federal per diem rates without sufficient justification.
- Other expenses which we considered to be unnecessary or unreasonable included limousine service (\$1,400), personal phone calls (\$200), and rental car insurance (\$90).

Off System Bank Account

In December 2001, the authority opened up a separate bank account. Revenues derived from services provided by the authority to its lending partners and institutions are cleared through this account prior to transfer to the state's Cash Management Fund. Over \$4.8 million has been deposited in this account since the account was opened. Previously, funds were deposited into an established state bank account.

In addition, a balance of approximately \$30,000 is maintained to serve as an alternate means of payment for expenses incurred for general purposes. Between December 20, 2001 and July 30, 2004, the authority expended over \$199,000. The authority uses the state accounting system to process their expenditures. We found no compelling reason to

**HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
ADMINISTRATIVE EXPENDITURES**

have these expenditures paid out of this bank account because they could have been processed through the state accounting system. However, we did note purchases for a vehicular computerized navigation system (\$1,800), a staff Christmas party (\$1,700), business meals (\$1,300), and a PDA device (\$600) which we considered to be unnecessary, unreasonable, or insufficiently supported. None of the expenditures paid through this account were reflected on the state accounting system.

Information Technology Systems

During the first quarter of 1998, an external audit of the University MIS and Computer Services Department was conducted and it concluded an urgent need for the revision of its technological infrastructure by replacing rather than repairing the system. A Technology Coordinating Team was created and conducted a review of current products on the market and recommended the purchase and deployment of new system software. In November 1998 the University's Board of Trustees approved a waiver of advertising authorizing the University administration to license the selected vendor's Student Administration, Human Resources, Financial modules and Workstation Access, and to purchase six years of support services for approximately \$2 million.

In 2002, the University solicited bids from 23 vendors to act as the primary contractor for the delivery of the professional services required to implement these software products. The University selected the bid from the software vendor based on factors considered critical and relevant for the successful planning, implementation, and continued operations of its vendor's systems. The bid amount indicated that the entire project could be implemented for approximately \$4 million. This bid contained detailed information as to the implementation costs of each module. However, subsequent change orders and vendor invoices did not contain this level of detail. As of October 2004, the cumulative payments to the vendor for the implementation of the software totaled \$9 million. No projection has been made as to how much will be needed to complete the project.

The project has not been effectively monitored. The lack of sufficient details hinder management in properly evaluating the status of the project or determining the propriety of amounts billed by the vendor.

Purchase Card Program

The University established the purchasing card (P-card) program to provide a more convenient and efficient method of procuring goods and services, and to reduce the costs associated with initiating and paying for those purchases. During fiscal year 2004, P-card purchases totaled \$338,000 by 26 cardholders. Subsequent to our review, the University expanded the number of cardholders from 26 to 92. Our review of one month of transactions noted that none of them were subjected to independent review to verify that purchases were appropriate and supported by adequate documentation as required by University policy. Documentation was either missing or inadequate for 24 percent of the transactions tested. Although the policy states that only the cardholder whose name is embossed on the purchasing card is authorized to use the card, we noted that there were multiple users for twelve of these cards.

**NEW JERSEY COMMERCE, ECONOMIC GROWTH AND TOURISM
COMMISSION, URBAN ENTERPRISE ZONE PROGRAM AND
PROSPERITY NEW JERSEY, INCORPORATED**

Audits of Closed Urban Enterprise Zone Projects

Proposed enterprise zone projects require the approval of the Urban Enterprise Zone Authority. Projects funded through this program include providing funds for upgrading municipal services, such as police and fire, public improvement projects, and economic development projects. Specific projects funded through this program included purchasing a street sweeper, replacing sidewalks and repairing building facades, construction of a minor-league baseball facility, and providing funds for local loan programs. Initially there were ten designated zones. Currently there are 32 legislatively approved zones serving 37 municipalities.

Since inception of the program in 1983, the authority has approved 1,651 projects with total budgets of \$571.5 million that included a state share of \$531.7 million. As of January 31, 2005 there were 1,209 closed projects reporting \$312.2 million in state expenditures. The prior audit report, dated July 14, 1997, reported that the then - Department of Commerce had contracted with independent accounting firms to perform agreed-upon procedure audits on closed projects. The department received reports for 107 of the 327 closed projects. Since the date of our last report, the commission has received reports for an additional 26 closed projects, bringing the total audited closed projects to 133, representing \$53.3 million of state expenditures. The date of the last report received was October 9, 2003. The percentage of closed projects audited has dropped from 33 percent to 11 percent during the last eight years. One zone whose expenditures represent over ten percent of the closed project totals has not been audited.

In accordance with the UEZ guidelines, financial reviews should be performed for all projects. In addition, since the commission relies on the procurement controls of each individual zone, closer monitoring is necessary to verify that funds are properly utilized and reported. During calendar year 2004 the commission established a pilot program utilizing their UEZ field representatives as project reviewers. Thirty projects were reviewed and the documentation for these reviews indicated that there were issues that warranted a more extensive examination which could not be accomplished due to time constraints and staffing levels. As a result, the commission discontinued this review project.

OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING 2005

TYPES OF FINDINGS

<u>REPORT</u>	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY/ EFFICIENCY</u>	<u>NONE</u>
Casino Control Fund		OPINION ONLY		
Department of Agriculture				X
Department of Corrections				
Adult Diagnostic and Treatment Center	X		X	
Bayside State Prison				X
Department of Education				
City of Camden Board of Education		X	X	
State Aid			X	
Department of Environmental Protection				
Water Funds		X	X	
Department of Health and Senior Services				
Office of the Public Guardian for Elderly Adults	X	X	X	
Department of Human Services				
Division of Developmental Disabilities				
Community Programs – Grants-in-Aid	X	X	X	
Division of Family Development				
General Assistance Program	X	X	X	
Temporary Assistance to Needy Families Intake Process		X		
Division of Mental Health Services				
Greystone Park Psychiatric Hospital		X		
Trenton Psychiatric Hospital	X	X		
Department of Law and Public Safety				
Division of Criminal Justice				
Office of the Insurance Fraud Prosecutor	X	X		
Department of State				
Selected Programs		X	X	
Department of the Treasury				
Division of Investment			X	
Office of Management and Budget				
New Jersey Comprehensive Financial System		X		
Selected Programs		X		

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<u>REPORT</u>	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY/ EFFICIENCY</u>	<u>NONE</u>
Higher Education Student Assistance Authority Administrative Expenditures	X	X		
Hold Check Process	X		X	
Judiciary Superior Court of New Jersey Morris/Sussex Vicinage		X		
New Jersey Commerce, Economic Growth and Tourism Commission Urban Enterprise Zone Program and Prosperity New Jersey, Incorporated		X		
New Jersey Comprehensive Annual Financial Report		OPINION ONLY		
New Jersey City University	X	X		
New Jersey Motor Vehicle Commission Field Operations	X	X		
New Jersey State Parole Board		X		
Pinelands Commission		SINGLE AUDIT REPORT		
South Jersey Port Corporation		X	X	
State of New Jersey Report on Internal Control and on Compliance and Other Matters Related to Our Audit of the State's Comprehensive Annual Financial Report				X
Statewide Collections			X	