



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

---

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

For Fiscal Year Ended June 30, 2014

---

**Stephen M. Eells  
State Auditor**



LEGISLATIVE SERVICES COMMISSION

ASSEMBLYMAN  
VINCENT PRIETO  
*Chairman*

SENATOR  
THOMAS H. KEAN, JR.  
*Vice-Chairman*

SENATE

CHRISTOPHER J. CONNORS  
NIA H. GILL  
ROBERT M. GORDON  
JOSEPH M. KYRILLOS, JR.  
JOSEPH PENNACCHIO  
STEPHEN M. SWEENEY  
LORETTA WEINBERG

GENERAL ASSEMBLY

JON M. BRAMNICK  
ANTHONY M. BUCCO  
JOHN J. BURZICHELLI  
THOMAS P. GIBLIN  
LOUIS D. GREENWALD  
ALISON LITTELL MCHOSE  
SCOTT T. RUMANA

## New Jersey State Legislature

### OFFICE OF LEGISLATIVE SERVICES

OFFICE OF THE STATE AUDITOR  
125 SOUTH WARREN STREET  
PO BOX 067  
TRENTON NJ 08625-0067

DAVID J. ROSEN  
*Executive Director*  
(609) 847-3901

OFFICE OF THE STATE AUDITOR  
(609) 847-3470  
FAX (609) 633-0834

STEPHEN M. EELLS  
*State Auditor*

GREGORY PICA  
*Assistant State Auditor*

JOHN J. TERMYNIA  
*Assistant State Auditor*

The Honorable Chris Christie  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Vincent Prieto  
Speaker of the General Assembly

Mr. David J. Rosen  
Executive Director  
Office of Legislative Services

We have audited the financial statements of the State of New Jersey as of and for the year ended June 30, 2014 and have issued our report thereon dated April 2, 2015. In connection with that audit, we tested internal controls and compliance to laws and regulations. The results of our tests are contained herein in our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

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

Stephen M. Eells  
State Auditor  
April 8, 2015

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

**Table of Contents**

	<b>Page</b>
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	1
Schedule of Findings and Responses .....	4



LEGISLATIVE SERVICES COMMISSION

ASSEMBLYMAN  
VINCENT PRIETO  
*Chairman*

SENATOR  
THOMAS H. KEAN, JR.  
*Vice-Chairman*

SENATE

CHRISTOPHER J. CONNORS  
NIA H. GILL  
ROBERT M. GORDON  
JOSEPH M. KYRILLOS, JR.  
JOSEPH PENNACCHIO  
STEPHEN M. SWEENEY  
LORETTA WEINBERG

GENERAL ASSEMBLY

JON M. BRAMNICK  
ANTHONY M. BUCCO  
JOHN J. BURZICHELLI  
THOMAS P. GIBLIN  
LOUIS D. GREENWALD  
ALISON LITTELL MCHOSE  
SCOTT T. RUMANA

# New Jersey State Legislature

## OFFICE OF LEGISLATIVE SERVICES

OFFICE OF THE STATE AUDITOR  
125 SOUTH WARREN STREET  
PO BOX 067  
TRENTON NJ 08625-0067

DAVID J. ROSEN  
*Executive Director*  
(609) 847-3901

OFFICE OF THE STATE AUDITOR  
(609) 847-3470  
FAX (609) 633-0834

STEPHEN M. ELLS  
*State Auditor*

GREGORY PICA  
*Assistant State Auditor*

JOHN J. TERMYNA  
*Assistant State Auditor*

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

#### Independent Auditor's Report

The Honorable Chris Christie  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Vincent Prieto  
Speaker of the General Assembly

Mr. David J. Rosen  
Executive Director  
Office of Legislative Services

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of New Jersey as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of New Jersey's basic financial statements, and have issued our report thereon dated April 2, 2015. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component units, the pensions and other employee benefits trust funds, and the Port Authority of New York and New Jersey, as described in our report on the State of New Jersey's basic financial statements. This report does not include the results of the other auditors' testing of

internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the pensions and other employee benefits trust funds and three discretely presented component units, the New Jersey Sports and Exposition Authority, the Higher Education Student Assistance Authority, and the Casino Reinvestment Development Authority, audited by other auditors, were not audited in accordance with *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant weaknesses may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Responses (Findings 2014-001 and 2014-002) that we consider to be significant deficiencies.

### **Compliance and Other Matters**

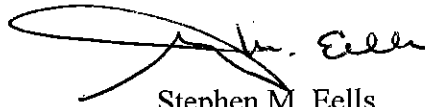
As part of obtaining reasonable assurance about whether the State of New Jersey's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct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

## State of New Jersey's Response to Findings

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

## Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Stephen M. Eells", is positioned above the printed name.

Stephen M. Eells  
State Auditor  
April 2, 2015

**State of New Jersey**  
**Schedule of Findings and Responses**

***Finding: 2014-001***

**Financial Statement Reporting**

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

Audit adjustments totaling \$66 million were made to correct tax revenue accruals in the General Fund and the Property Tax Relief Fund because of uncertain methodologies and calculation errors by the Department of the Treasury's Office of Revenue and Economic Analysis (OREA). In our fiscal year 2009 and 2010 reports, we recommended a more detailed review of the OREA's tax accrual calculations be completed prior to submission to OMBFR.

***Recommendation***

We repeat our recommendations from fiscal years 2009 and 2010 that a more detailed independent review of the OREA's tax accrual calculations be completed prior to the journal entries being recorded.

***Finding 2014-002***

**Financial Statement Adjustment Consistency**

The OMBFR does not apply consistent criteria when determining which adjustments are to be made to the financial statements. Our audit proposed \$160 million in adjusting journal entries affecting the government-wide statements (\$128 million) and the General Fund (\$32 million). Although the OMBFR agreed with our proposed entries, they did not make the adjustments because of immateriality, and in some instances, the late-stage that CAFR production was in at the time the adjustments were proposed. The opinion was not modified because the adjustments were below the calculated materiality thresholds. However, subsequent to presenting these entries, management made a separate \$3.7 million adjustment reducing the fund balance of the Property Tax Relief Fund in order to comply with an executive order. Applying inconsistent criteria to record financial statement adjustments, although immaterial for opinion purposes, may affect financial statement transparency.

***Recommendation***

The OMBFR should apply consistent criteria when determining whether to record adjusting entries.





## State of New Jersey

OFFICE OF THE STATE TREASURER

P.O. BOX 002

TRENTON, NJ 08625-002

**CHRIS CHRISTIE**

*Governor*

**KIM GUADAGNO**

*Lt. Governor*

**ANDREW P. SIDAMON-ERISTOFF**

*State Treasurer*

April 2, 2015

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

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

Dear Mr. Eells:

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

### **Financial Statement Reporting**

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

#### **Finding 2014 – 1**

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

An internal control over financial reporting weakness was noted during our current audit. Audit adjustments totaling \$66 million were made to correct tax revenue accruals in the General Fund and the Property Tax Relief Fund because of uncertain methodologies and calculation errors by the Department of the Treasury's Office of Revenue and Economic Analysis (OREA). In our fiscal year 2009 and 2010 reports, we recommended a more detailed review of the OREA's tax accrual calculations be completed prior to submission to OMBFR.

Mr. Stephen M. Eells  
April 2, 2015  
Page 2

**Response**

OREA and OMB will review the calculations that inform the process and make any necessary changes.

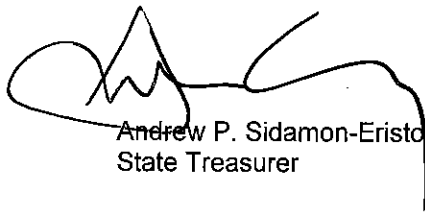
**Finding 2014 – 2**

The OMBFR does not apply consistent criteria when determining which adjustments are to be made to the financial statements. Our audit proposed \$160 million in adjusting journal entries affecting the government-wide statements (\$128 million) and the General Fund (\$32 million). Although the OMBFR agreed with our proposed entries, they did not make the adjustments because of immateriality, and in some instances, the late-stage that CAFR production was in at the time the adjustments were proposed. The opinion was not modified because the adjustments were below the calculated materiality thresholds. However, subsequent to presenting these entries, management made a separate \$3.7 million adjustment reducing the fund balance of the Property Tax Relief Fund in order to comply with an executive order. Applying inconsistent criteria to record financial statement adjustments, although immaterial for opinion purposes, may affect financial statement transparency.

**Response**

In the normal course of the CAFR closing process, journal entries presented by the Office of the State Auditor are reviewed and evaluated. The journal entries affecting the government-wide statements (\$128 million) were agreed to but not booked due to the late stage that the CAFR production was in at the time. The journal entries affecting the General Fund (\$32 million) was agreed to but not booked due to the zero impact on the unassigned General Fund balance. The entry only affected the carry forward portion of the General Fund balance. The \$3.7 million adjustment which reduced the Property Tax Relief Fund balance was required to comply with Executive Order Number 156. Although the dollar amount was immaterial, it was management's opinion that any adjustment that affects the budgeted surplus should be evaluated closely and recorded, if possible. In the future, attempts will be made to apply a consistent procedure to the recording of proposed adjustments and journal entries.

Sincerely,



Andrew P. Sidamon-Eristoff  
State Treasurer

ss

c: Charlene M. Holzbaur  
Michael Griffin