

**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, 2008

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New Jersey State Legislature

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Governor of New Jersey

The Honorable Richard J. Codey
President of the Senate

The Honorable Joseph J. Roberts, Jr.
Speaker of the General Assembly

Mr. Albert Porroni
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, 2008 and have issued our report thereon dated April 30, 2009. In connection with that audit, we tested internal controls and compliance to laws and regulations. The results of our tests are contained 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
Assistant State Auditor
June 18, 2009

**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***

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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*

We have audited 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, 2008, which collectively comprise the state's basic financial statements and have issued our report thereon dated April 30, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with 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. Other auditors 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 two discretely

presented component units, the New Jersey Sports and Exposition Authority and the Casino Reinvestment Development Fund, audited by other auditors were not performed in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the State of New Jersey's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of New Jersey's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses (2008-1 and 2008-2) to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the accompanying schedule of findings and responses is a material weakness.

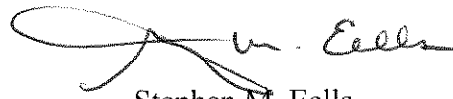
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of New Jersey's financial statements are free of 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*.

The State of New Jersey's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the State of New Jersey's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the State of New Jersey, the legislature, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Stephen M. Eells". The signature is fluid and cursive, with a large loop at the beginning.

Stephen M. Eells
Assistant State Auditor
April 30, 2009

State of New Jersey
Schedule of Findings and Responses
April 30, 2009

Finding: 2008-1

Financial Statements and Notes to the Financial Statements 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 (NJCFIS) and adjustments prepared by the OMBFR accountants through the use of journal vouchers. The NJCFIS data is uploaded into the SAS Financial Management System (SASFM) which creates the final financial statements. Governmental Accounting Standards Board Statement No. 34 statements, component units and off-line funds audited by independent certified public accounting firms are entered directly through journal entries into the SASFM by the OMBFR for inclusion in the CAFR. The OMBFR may also make adjustments to financial statements through entries on SASFM. The management's discussion and analysis, notes to the financial statements, statistical section, and certain other information are included in the CAFR through use of other software programs.

An internal control over financial reporting weakness was noted during our current audit. Financial statements of the discretely presented component units are audited by independent certified public accounting firms. Component unit management converts these audited statements into a format conducive to the CAFR presentation. As mentioned above, these converted statements are entered directly through journal entries on SASFM by OMBFR for inclusion in the CAFR. An audit adjustment was necessary for one of the major component units as a result of a misclassification of net asset categories. The statement of net assets submitted by the component unit incorrectly reported \$5.5 billion of Net Assets "Invested in capital assets, net of related debt" as "Restricted for: Debt service". The OMBFR does not have a formalized procedure to analytically review component unit financial statement balances from year-to-year. An analytical procedure comparing year-to-year balances may have detected the misclassification. In our prior report dated February 29, 2008, we recommended OMBFR formalize procedures to analytically review financial statement amounts to lessen the risk that material incorrect journal voucher activity may occur and not be detected in a timely manner. This procedure should be extended to the component unit statements.

Recommendation

We recommend that the OMBFR extend its formalized procedures to analytically review financial statement amounts to lessen the risk that a material error due to incorrect journal voucher activity may occur and not be detected in a timely manner to the component unit financial statements.

Finding 2008-2

Capital Asset Accounting and Reporting

Under Governmental Accounting Standards Board Statement No. 34, capital assets of the state are to be recorded at historical cost in the Statement of Net Assets in the Government-wide Financial Statements. Capital assets include land, land improvements, easements, buildings, building improvements, equipment, infrastructure, and intangible assets. Examples of infrastructure assets include roads, tunnels, drainage systems, water and sewer systems, dams and lighting systems. Works of art, historical treasures, and similar assets are not capitalized and depreciated because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. The state maintains the Land, Building and Asset Management system (LBAM), managed by the Department of the Treasury's Office of Management and Budget - Financial Reporting (OMBFR), to account for the state's capital assets and related depreciation. The Department of Transportation (DOT) separately accounts for the state's road and bridge related infrastructure assets. The DOT reports their capital asset information to the OMBFR for inclusion in the LBAM. The OMBFR is responsible for the reporting of buildings and construction in progress and obtains this information primarily from the Division of Property Management and Construction (DPMC) and its FOXPRO project management system. All agencies are responsible for accurate recording of their capital assets in the LBAM. The net capital assets were \$19.2 billion at June 30, 2008.

In our previous report dated February 29, 2008, we noted that the state's reporting of capital assets had improved, however, reporting issues still existed. Although OMBFR continued to improve reporting of capital assets during fiscal year 2008, an internal control over financial reporting weakness was noted during our current audit.

According to the state's policy, no assets are to be depreciated more than 70 years. We noted 177 assets being depreciated using 100 years as the useful life. An audit adjustment of \$42 million was made to bring the overstated asset values in line with proper depreciation schedules.

Recommendation

We recommend that OMBFR review depreciation schedules to ensure that the useful lives entered into the LBAM are in accordance with state policy.



State of New Jersey
DEPARTMENT OF THE TREASURY
OFFICE OF MANAGEMENT AND BUDGET
PO Box 221
TRENTON NJ 08625-0221

JON S. CORZINE
Governor

R. DAVID ROUSSEAU
State Treasurer

June 9, 2009

Mr. Stephen M. Eells
Assistant 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 responses to the audit team's recommendations are as follows:

Financial Statements and Notes to the Financial Statements Reporting

Finding

An internal control over financial reporting weakness was noted during our current audit. Financial statements of the discretely presented component units are audited by independent certified public accounting firms. Component unit management converts these audited statements into a format conducive to the CAFR presentation. These converted statements are entered directly through journal entries on SASFM by OMBFR for inclusion in the CAFR. An audit adjustment was necessary for one of the major component units as a result of a misclassification of net asset categories. The statement of net assets submitted by the component unit incorrectly reported \$5.5 billion of Net Assets "Invested in capital assets, net of related debt" as "Restricted for: Debt service." The OMBFR does not have a formalized procedure to analytically review component unit financial statement balances from year-to-year. An analytical procedure comparing year-to-year balances may have detected the

Mr. Stephen M. Eells

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Response

The Office of Management and Budget (OMB) appreciates the State Auditor Office's comments to strengthen certain weaknesses. The audit adjustment relating to the misclassification of net asset categories which caused the overstatement of Restricted for: Debt Service and understatement of Invested in capital assets, net of related debt had no impact on the Total Net Assets of the major component unit. OMB agrees with the recommendation and will implement review procedures for the 2009 CAFR reporting.

Capital Asset Accounting and Reporting

Finding

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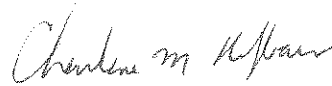
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Mr. Stephen M. Eells
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June 9, 2009

Response

The Office of Management and Budget (OMB) appreciates the efforts of your staff in the review of the Statewide Land and Building Asset Management system (LBAM). OMB acknowledges the finding and has taken steps to strengthen reporting from LBAM. During FY09 controls have been implemented to ensure accuracy of the useful lives of assets.

Sincerely,



Charlene M. Holzbaur
Director

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