

**NJ OFFICE OF THE STATE  
AUDITOR**

**NEW JERSEY STATE  
AUDITOR UPDATE**

Stephen M. Eells  
State Auditor

# About The Office

- The State Auditor is a constitutional position appointed and confirmed by a joint session of the Legislature.
- Office is administratively located within the Office of Legislative Services(OLS), a non-partisan office established to assist the Legislature in their mission.
- The office consists of approximately 92 professionals and five administrative staff.
- Reports are public and directed to the Governor, Senate President, Speaker of the Assembly and the Executive Director of OLS.

# About The Office(con't)

- Established as the Legislative watch-dog over the other branches of Government.
- Critical to independence as compared to other audit organizations in the state.
- All of our reporting is in compliance with *GAS* (yellow book).

# Mission

- To provide 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.
- Reporting includes recommendations on how to improve the workings of government and how to strengthen agency internal controls.

# Types of Audits Performed

- We are authorized to conduct post-audits of all transactions and accounts kept by or for all agencies of State Government.
- We are authorized to conduct performance audits of any program or entity that receives state funds (follow *GAS* standards).
- We are authorized to perform forensic audits of any school district which has a year-end general fund deficit and one of several reporting criteria indicated in the enabling legislation.

# Types of Audits Performed (con't)

- We perform:
  - Financial statement opinion audits
  - Performance Audits
    - Internal control effectiveness
    - Program effectiveness, economy, and efficiency
    - Program compliance
  - Forensic audits of school districts

# How Are We Doing?

- During the last five calendar years ending December 31, 2016, we have identified \$660.8 million in new cost savings or revenue enhancements.
  - Additionally, we identified over half of unclaimed property holders in the state had not reported. Those that had reported provided \$509 million in unclaimed property assets, thus an opportunity for millions of dollars of revenue exists. (For state residents as well as the General Fund)
- This works out to approximately \$1.5 million per auditor per year.
- In addition, we have noted a significant number of internal control improvements which have no doubt added to the efficiency and effectiveness of State operations which were not measurable in dollars.

# How Are We Doing?(con't)

- Legislation requires us to perform annual compliance reviews of recently published audit reports.
- In December of each year we perform compliance work on audits which were published in the preceding fiscal year.
- We also update our work from the previous fiscal year which was reported upon in last year's compliance report for the first time.



# How Are We Doing?(con't)

- Fiscal Year 2016 compliance review found that 83% of our recommendations presented in our audit reports had been complied with or were in the process of compliance.
- Over the two-year period (Fiscal Year 2015), compliance with our recommendations had risen to 88%.

# Why We Are Different

- The State Auditor is a Constitutional Officer.
- Established in a manner which allows for independence in both mind(fact) and *appearance*.
- Primary focus is on auditing State Government operations of the Executive and Judicial branches of government.

# Why We Are Different

## What do other state's look like?

- Based upon information from the 2015 Edition of NASACT's *Auditing in the States* (56 State Audit agencies reported).
  - Legal basis
    - 25 are both constitutional and statutory.
    - 6 are constitutional.
    - 25 are statutory.
  - Organizational Structure
    - 32 are responsible to the Legislature or a Legislative Committee.
    - 20 report directly to the public.
    - 37 are appointed.
    - 19 are elected( elected are generally affiliated with a political party).
  - Scope of Authority
    - 49 have the authority to audit all state agencies.
      - 6 do not have such authority.
    - 29 have the authority to audit local government.
      - 26 do not have this authority.

# Current Audit Challenges

- Access to data/privacy protection issues
  - Revised IRS Publication 1075 requirements
- Constantly changing audit standards
  - Currently GASB 74/75 Post-employment Benefit Plans other than Pensions(OPEB)
- Performance audit challenges
  - Authority to audit.
- Human Resources – millennials
  - Continued challenges with their desire for mobility

# Recent Audits of Interest

- Department of the Treasury – Unclaimed Property Administration
- Department of Human Services – Division of Medical Assistance and Health Services – Medical Provider Networks
- New Jersey Economic Development Authority – Tax Incentive Programs
- Department of Environmental Protection – Tire Recycling Program
- IT Audits
  - IT Governance
  - IT Contingency Planning
  - IT Project Management

# Recent Audits of Interest

- Forensic School District Audits
- Some Examples of Observations used in our Audits
  - EDA Tax Incentives
  - Life Insurance company requirement to match policies to death records periodically.

# Department of the Treasury – Unclaimed Property Administration

- Objectives – determine whether financial transactions were related to the program, were reasonable and were properly recorded. Also, was the UPA meeting it's statutory responsibilities for administering the program.
- What we found:
  - Outreach – All property was not being included on the website.
    - 304,000 cash properties totaling \$274.4 million and 12,000 stock properties totaling 10 million shares.
    - Newspaper advertising is still required at a cost of \$1.1 million per year.

# Department of the Treasury – Unclaimed Property Administration

- Holder Reports not being filed:
  - UPA received approximately 29,000 holder reports with a cash value of \$508.9 million during FY 2014 and 2015.
  - We matched these filers against businesses filing CBT returns for tax year 2014 and noted 116,000 businesses that did not file a report.
    - Over 32,000 of those had gross receipts in excess of \$1 million.
  - So significant risk exists for material amounts of unclaimed property to remain outside the trust fund.



# Department of the Treasury – Unclaimed Property Administration

## ■ Debt Recovery

- UPA is not required to match claimants to the state/federal outstanding debt data (SOIL Program).
  - During FY 2015, had a match been made, \$1.3 million would have been applied to claimant debts owed to the state or federal government .

# Department of Human Services

## Division of Medical Assistance and Health Services

### Medical Provider Networks

- **Objective** — to determine if the division effectively monitored the adequacy of the MCO provider networks regarding access to care and provider availability.
- For the year ending December 31, 2015, the state spent \$8.1 billion on managed care for approximately 1.6 million Medicaid beneficiaries.
- **What we found:**
  - Access to licensed general acute care hospitals did not meet contractual requirements.
    - Four of 5 MCO's included 41 facilities on their list that were not acute care hospitals. Made it appear as if the contract's requirement had been met.

# Department of Human Services

## Division of Medical Assistance and Health Services

### Medical Provider Networks

#### ■ Dental Providers

- We found that dental providers listed at a particular location were not actually practicing at that location (providers had multiple sites and listed all of their dentists at each location).
  - Thus the number of actual providers at each site were considerably less than that which was reported by the MCO's.
- #### ■ Specialist's such as Dermatologists, Endocrinologists, ENT's, and Orthopedic surgeons had the same issue – multiple locations and the provider was listed at each of them while only operating at one.
- We noted that almost 26% were not operating at the location stated online.
  - Also noted that over 11% were not even accepting MCO's insurance.

# New Jersey Economic Development Authority Tax Incentive Programs

- Objectives — to determine if adequate controls were in place at NJEDA to award and administer business incentive program grants and whether NJEDA was monitoring grant recipients for compliance.
- What we found:
  - Documented cost benefit information provided by applicants considering a move out-of-state needs to be adequately reviewed and verified.
  - Procedures need to be implemented to verify the existence of at-risk jobs prior to grant approval.
  - Several observations I will talk about later.
  - GASB – 77 Tax Abatements – will help to add to the accountability of state tax incentive programs.

# Department of Environmental Protection

## Tire Recycling Program

- Objectives — to determine the current status of scrap tire piles within the state and to determine whether scrap tires ultimately arrive at an appropriate end-market.
- What we found:
  - We noted a need for the department to increase monitoring and detection efforts.
    - 18 of 26 known major scrap tire sites were not complying with state regulations and require additional remediation efforts.
    - We identified an additional 11 new sites that were also non-compliant.

# Department of Environmental Protection

## Tire Recycling Program

- The 29 sites(18 + 11) were estimated to contain 350,000 to 565,000 scrap tires.
  - One site that was approved for 5000 tires was estimated to have as many as 40,000. They were supposed to be stored indoors until processed, but were laying in piles outdoors.
- Utilizing satellite mapping software, we scanned known junk yards for potential scrap tire piles.
  - We identified 13 sites containing scrap tires and estimated that another 85,000 to 156,000 tires had accumulated on these sites.
  - Satellite imaging allowed us to see sites that are hidden by trees and buildings from the ground.
- Tire piles are breeding grounds for disease carrying mosquitoes and also represent a fire safety hazard.

# IT Audits

## ■ IT Governance

- We found that the executive branch has not adopted a statewide IT governance framework. Also, as a result, most agencies had not implemented an internal governance policy. This can contribute to inefficient and ineffective use of IT resources.
- This leads to other areas lacking as well:
  - Most agencies lack an IT strategic plan.
  - The executive branch and most agencies fail to have a data governance framework.
- Lack of training and succession planning become critical issues without a proper plan in place.

# IT Audits(con't)

## ■ IT Contingency Planning

- We found of the 24 state agencies tested , all 24 had contingency and disaster recovery plans in place, but 18 of the 24 had never tested their plans. Additionally, 5 of the 24 were not current.
- The OIT dedicated recovery site does not have the infrastructure or network capacity to provide disaster recovery for all of the state's critical distributed computer applications. No centralized coordination existed.
- Most agencies maintain on-site server rooms which had many security and operating deficiencies.



# IT Audits(con't)

## ■ IT Project Management

- There was no Project Review Board in place as required by law.
- Three of six projects we reviewed lacked a qualified project manager representing the state's interests.
- Four of the six projects had issues related to scope management. Two, with expansive initial scopes were unsuccessful and resulted in millions of dollars spent with no usable product in the end.
- A sample of 52 projects found that only 18(35%) had any type of cost benefit analysis performed. Of those, only 5 had the cost-benefit expressed in monetary savings.

# School District Forensic Audits

- We generally do two to three forensic school district audits per calendar year.
- As part of the audit, we perform significant performance audit work at the district to maximize our resources.
- The idea is to find as many contributing factors as possible.
- The main culprit is usually a lack of appropriate budgeting skills on behalf of school district management.

# School Districts (con't)

- Budgeting Errors- determining whether they were intentional or oversight.
  - Usually appears as if management is trying to hide needed increases so property tax increases aren't needed—don't want to be the bad guys. Program cuts will never make you popular.
- Many times spending controls are placed into the hands of staff who are not trained in finance(I.E. – teachers, administrative support staff) – thus controls go by the wayside.

# School Districts(con't)

- Most of the referrals we make to the NJ Division of Criminal Justice for possible fraud come from our school district audits.
- The lack of controls creates the “opportunity” piece from the fraud triangle and is always present in these types of audits.

# Observations

- We use observations to report upon issues that don't exactly rise up to the level of a report finding.
- Strictly a means to publicly disclose an issue that has come to our attention and we feel an open discussion is warranted.

# Noted Observations

- New Jersey Economic Development Authority – Selected Incentive Programs
  - Calculation of net benefit utilizes Corporate Business Taxes even for a company that is already operating in New Jersey.
  - Net benefit durations were exceeding the companies commitment duration. Thus, if a company chooses to relocate to another state after their commitment period is over, net benefit will not be realized. In fact it could very well be negative.
  - Job retention tax credits are not tiered to be reflective of the wage level of the jobs being retained.

# Noted Observations (con't)

- Department of the Treasury – Unclaimed Property Administration
  - Life Insurance policies
    - New Jersey does not have a law that requires insurance companies to perform a match with the Social Security Administration's Death Master File(DMF) to determine if life insurance policy holders are deceased in order to distribute money to beneficiaries.
    - 18 states have recently passed legislation requiring the match.
    - In 2011, an investigation done by NY resulted in 89,000 payments totaling \$665.7 million to beneficiaries who were unaware of the policy's existence-\$206.2 million were made to NY residents.

# QUESTIONS????

- Contact Info:

- Stephen M. Eells

- New Jersey State Auditor, Office of the State Auditor,  
Office of Legislative Services

- 609-847-3470

- [seells@njleg.org](mailto:seells@njleg.org)

- Website -

- [www.njleg.state.nj.us/legislativepub/auditreports.asp](http://www.njleg.state.nj.us/legislativepub/auditreports.asp)