New Jersey Legislature

★ Office of LEGISLATIVE SERVICES ★

OFFICE OF THE STATE AUDITOR

2022
Annual Report

Improving the accountability of public funds and strengthening the operations of government

David J. Kaschak

State Auditor

Message from the State Auditor

The Honorable Members of the Senate and General Assembly

Ms. Maureen McMahon
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 2022. In conformance with our responsibilities to perform financial, performance, and compliance audits, all state agencies are audited periodically using a risk-based approach. During 2022, we issued 16 reports and identified $44.1 million in potential cost savings, improper payments, and 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 of public funds and to improve the operations of 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 better 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 we audit. We are committed to providing high quality audit reports. You may be assured we will continue our efforts to improve government accountability to the Legislature through an effective and constructive audit process.

David J. Kaschak
State Auditor
July 25, 2023

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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 were 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 a successor shall be appointed and qualified. On February 23, 2021, David J. Kaschak, CPA, was confirmed by a joint session of the Legislature as the State Auditor.

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 I, 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 Governor, the Legislature, and the Executive Director of the Office of Legislative Services. In addition, all audit reports issued by the Office of the State Auditor are public documents and are available on the New Jersey Legislature's website at https://www.njleg.state.nj.us/audit-reports.

The Pamphlet Laws of 2006, Chapter 82 authorized the State Auditor to conduct a performance review of any program of any accounting agency, any independent authority, or any public entity or grantee that receives state funds. The law also requires the State Auditor to conduct a follow-up review to determine agency compliance with our audit recommendations. In addition, at the request of the legislative leadership or the Legislative Services Commission, the State Auditor conducts studies on the operations of state and state-supported agencies with respect to their efficiency, 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 that can be used to improve the operations and accountability of public entities. In addition, the State Auditor provides assurances on the state's financial statements annually.

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.

Reporting will include assurances on the financial operations of the state.

The State Auditor and his staff will perform all work in a professional manner using appropriate standards.

ACCOMPLISHMENTS

During calendar year 2022, we identified $44.1 million in new cost savings, improper payments, and revenue enhancements. A schedule of cost savings, improper payments, and revenue enhancements is presented on page 4. The office provided training in various topics at no charge. Our compliance review on findings related to audit reports issued during the fiscal year ended June 30, 2021 disclosed that 71.4 percent of our recommendations have been complied with or management has taken steps to achieve compliance. Over a two-year period, the rate of compliance for fiscal year 2020 recommendations decreased slightly to 90.4 percent.

The office performs the annual financial audit of the state's Annual Comprehensive Financial Report. The Annual Comprehensive Financial Report engagement includes the audit of 207 funds and component units having a total asset value of $283.1 billion at June 30, 2022.

INTRODUCTION

PROFESSIONAL STANDARDS

The Office of the State Auditor's audits are performed in accordance with G*overnment Auditing Standards* issued by the Comptroller General of the United States. These standards require that our operations be reviewed every three years. In 2020, the National State Auditors Association conducted a review of our system of quality control that resulted in a Peer Review Rating of Pass, the highest rating attainable. The report received from this review is presented on page 5.

OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2022
(Expressed in Thousands)

REPORT		COST SAVINGS, IMPROPER PAYMENTS, AND/OR REVENUE ENHANCEMENTS
Department of Law and Public Safety		
Division of Civil Rights, Division of Highway Traffic Safety, Division of Alcoholic Beverage Control, and New Jersey Racing Commission	$	155.9
Department of Transportation		
Bureau of Transportation Data and Support Crash Records Unit	$	2,200.0
Lakewood Public School District*	$	41,607.1
Stockton University	$	105.9
Total Cost Savings, Improper Payments, and Revenue Enhancements	$	44,068.9

**Savings and revenue enhancements calculated over a three-year period.*

National State Auditors Association
An Affiliate of NASACT

NSAA

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PEER REVIEW REPORT

June 12, 2020

The Honorable Stephen M. Eells
New Jersey State Auditor
125 South Warren Street, P.O. Box 067
Trenton, NJ. 08625-0067

We have reviewed the system of quality control of the New Jersey Office of the State Auditor (the office) in effect for the period April 1, 2019 through March 31, 2020. 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 performing and reporting in conformity with applicable professional standards in all material respects. 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 professional 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. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with professional standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore, it would not necessarily disclose all design matters in the system of quality control or all compliance matters with the system. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. 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 New Jersey Office of the State Auditor in effect for the period April 1, 2019 through March 31, 2020 has been suitably designed and was complied with during the period to provide the audit organization with reasonable assurance of performing and reporting in conformity with *Government Auditing Standards* in all material respects. Audit organizations can receive a rating of *pass, pass with deficiency(ies)*, or *fail*. **The New Jersey Office of the State Auditor has received a peer review rating of *pass*.**

Joseph Schussler, CPA, CGFM
Concurring Reviewer
External Peer Review Team
National State Auditors Association

Michael J. Delaney, CPA, CFE
Team Leader
External Peer Review Team
National State Auditors Association

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 state's Annual Comprehensive Financial Report, which is published by the Department of the Treasury. In addition, we publish 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*, which is an integral part of the Annual Comprehensive Financial Report opinion audit. We have also issued a special report related to fund balances as of June 30, 2021 in accordance with statutory requirements. Four other financial audits were issued in calendar year 2022.

Performance Audits

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. This type of audit may also focus on specific performance issues. 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 on a department-wide basis because of their size and complexity. We completed six performance audits in calendar year 2022. These audits encompassed $1.4 billion and $1.1 billion of expenditures and revenues, respectively.

Information Technology (IT) Audits

The objectives of this type of audit are to determine whether the data maintained by a particular computer system is reliable, valid, safeguarded, and recorded properly; whether agency networks are properly managed to provide for business continuity and the prevention of system abuse; and whether system development and maintenance is performed in accordance with guidelines and best practices. During calendar year 2022, we reported on the Department of the Treasury, Office of Management and Budget, New Jersey Comprehensive Financial System application and the Department of Labor and Workforce Development, Unemployment Systems – Information Technology Operations.

The office has trained all audit staff on the basics of integrated auditing, where non-IT field auditors learn how to review IT controls while performing other audits. If the system they are reviewing has more complex controls, an IT auditor can be consulted or the system itself can be assigned to the IT unit as a separate audit. This effort will allow for the review of a greater number of IT controls.

TYPES OF AUDITS PERFORMED (continued)

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. In addition, in accordance with N.J.S.A. 18A:7A-57, the State Auditor is authorized to perform a forensic audit of school districts with a general fund deficit and meeting additional specific criteria as stated in the statute. We audited two school districts in calendar year 2022.

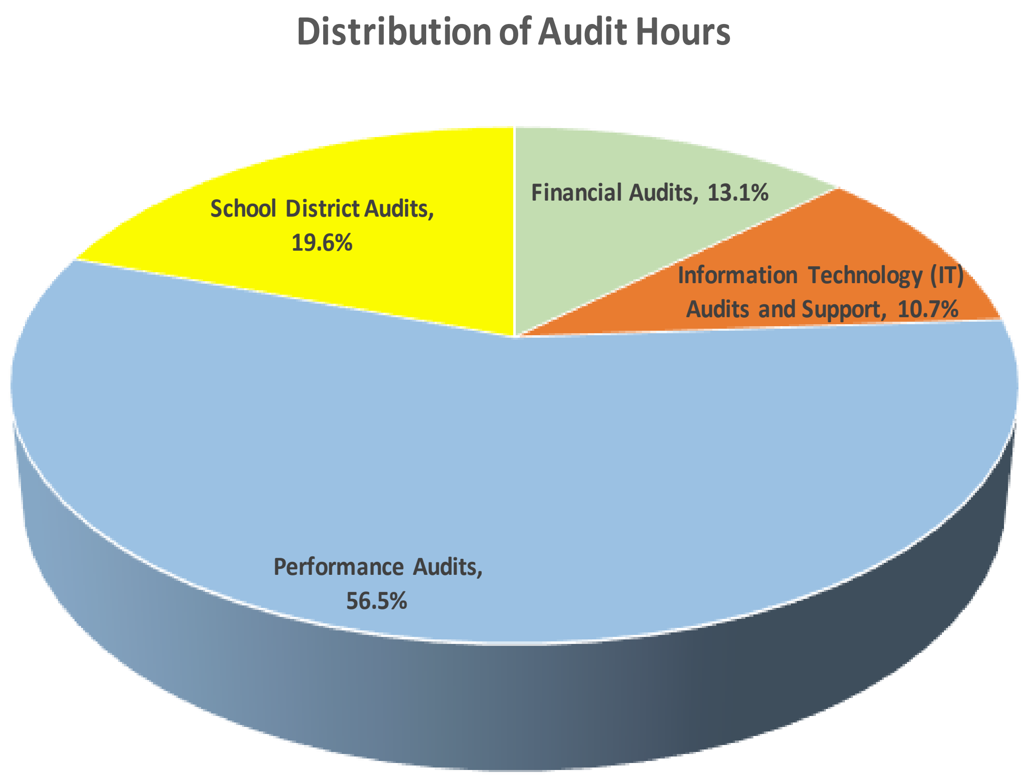
Legislative Requests

From time to time the Legislative Services Commission and Legislative leadership request the State Auditor to conduct special projects of the fiscal practices and procedures of the state and state-supported agencies, and to report findings to the Commission.

AUDIT REPORTS

DISTRIBUTION OF AUDIT HOURS

The distribution of audit hours used in performing audits during calendar year 2022 is depicted on the following chart.



AUDIT REPORTS

HOW AND TO WHOM AUDIT REPORTS ARE ISSUED

Findings and recommendations developed as a result of our independent audits are intended to provide accountability and improvement of government operations. All reports are discussed with agency officials prior to finalization, and modifications are made where warranted. Management comments to the final report are incorporated within the document. All issued reports of the Office of the State Auditor are public documents and are available on the New Jersey Legislature's web site at https://www.njleg.state.nj.us/audit-reports.

Reports are statutorily required to be sent to the:

- Governor
- President of the Senate
- Speaker of the General Assembly
- Executive Director of the Office of Legislative Services

In addition, copies of reports are routinely sent to the:

- Legislature (all members)
- Executive Directors of partisan staff
- Management of the audited entity
- State Treasurer
- State Comptroller
- State Library

Items Reported Under Separate Cover

Our audits sometimes disclose reportable conditions deemed confidential in nature. These conditions are communicated in a confidential management letter provided to agency management only. The findings and recommendations contained in the management letters are subject to the Office of the State Auditor's compliance process as required by N.J.S.A. 52:24-4.

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 92 professional and 4 support staff positions. All auditors must have a bachelor's degree in a business or related field such as accounting, finance, information systems, or data analytics. As of December 31, 2022, there were 49 staff members, 60 percent of the 82 filled professional positions, who possessed professional certifications or advanced degrees. Additionally, 45 percent of the 82 staff members belong to a local, state, or national professional organization. Working for the office qualifies for the one-year intensive and diversified experience needed to become a Certified Public Accountant in the State of New Jersey.

The office provides a minimum of 80 continuing professional education credits biennially 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 participate 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 administered by the National State Auditors Association.

The office continues to provide training in New Jersey Law and Ethics for CPAs to its staff, as well as to other state employees requiring the course. Staff also provided a governmental auditing presentation to university students seeking to learn about the operations of the Office of the State Auditor.

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 our IT staff.

The office maintains six active committees staffed by individuals in various titles to provide guidance in the areas of information technology (hardware/software and information), personnel, planning, policy, sampling, and training. An intranet site is also maintained that contains staff information, state budget and appropriation information, and commonly used accounting and auditing research and reference internet sites that 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 accuracy and adherence to professional standards. The quality assurance staff, through its research of accounting and auditing 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 the office library, purchasing and maintaining office supplies, and other general administrative functions.

OFFICE OF THE STATE AUDITOR
STAFF ROSTER
As of December 31, 2022

STATE AUDITOR

David J. Kaschak, CPA, CGFM
Robyn Boyer, Administrative Assistant

ASSISTANT STATE AUDITOR

Brian M. Klingele, MS, CIA, CGAP

ASSISTANT STATE AUDITOR

Thomas Troutman, CPA, CIA, CGFM

Jill Bodnar, Secretary

AUDIT MANAGERS

Daniel Altobelli, CPA, CISA, CEH
Robert F. Gatti, CPA
Kenneth Kramli, CPA
Anna Lorenc
Linda Maher, CGFM
Kristen Menegus, CGAP
Stacey O'Brien, MBA, CPA
Robert Rizzo, CPA
Christopher D. Soleau, CGAP

PRINCIPAL AUDITORS

Derek Bachmann
Kenyona Booker, CGAP
Stephanie A. Collins, MBA
John J. Coyle, CPA
George Derbaly, MS, CPA
Jennifer Dougherty, CISA
Luz Dow, CPA
Sean F. Duffy
Meghan Ellis
Lorien Flannery, MAccy
Eric Fonseca
Rene Gervasoni
Kathleen Gorman
Iryna Gryniv, MAccy
David M. Illuminate, CFE
Vishal P. Jhaveri, MBA, CPA
Kirill Kornoukh, CPA
Joshua Mastro, CFE
Matthew T. McCue
Richard J. McHale
Smaragda Ng, MBA
John R. Pullen, CICA
Michelle Quinones, CICA
Stephanie Rybak, MAccy
Nicole Sansone, CFE, CGAP
Brian K. Sherfesee
Hiral Singh, MBA, CPA
Jesskim So
Michael A. Tantum, MBA
Justin Toldt, MS, CPA
Kiersten K. Zadworney, CFE, CICA
Kurt T. Zadworney, CICA

AUDIT STAFF

Jennifer Alemoh
Paulina Badway, MAccy
Justin Bence
Timothy Carey
Eric Carter
Jaclyn Cena, CPA
Christine Chang, CPA
Diana Choe
Morgan Cole, CFE
Devan Davies, CFE
Michael Dintrone
Helene Evich, CPA
Tanja Fessler, MBA
Jacob Gatti
Rachel A. Haines
Austin Hammond
Kenneth P. Henderson, CPA
Zachary Hobson
Shane Hoffman
Kevin Holt, CGFM
Amanda Ireland
Douglass W. MacArthur
Jesenia Maldonado
Daniel Mostrangeli, MAccy
John O'Meara, CPA, CFE
Joseph Pica
Dean Powers
Kelsey Preston
Abeeda Razack, MAccy
Michael Salberta
Edward Shields, CPA
David Skorko
David Sohn, CFE
Meghan Stillwell
Shrushti Trivedi, MAccy, CICA
John Urciuoli
Lesia Vasyliv, MBA

ADMINISTRATIVE STAFF

Megan Kritzer, Support Services Assistant
Barkley Sury, Support Services Assistant

IT SUPPORT STAFF

John L. Garrett, Data Analyst

Certification Legend:

CEH – Certified Ethical Hacker
CFE – Certified Fraud Examiner
CGAP – Certified Government Auditing Professional
CGFM – Certified Government Financial Manager
CIA – Certified Internal Auditor
CICA – Certified Internal Controls Auditor
CISA – Certified Information Systems Auditor
CPA – Certified Public Accountant
MAccy – Master of Accountancy
MBA – Master of Business Administration
MS – Master of Science

ACCOMPLISHMENTS AND RESULTS

SUMMARY

This section highlights four audits issued during the past year that contained cost savings, improper payments, and revenue enhancements totaling $44.1 million. Information on these reports is presented on pages 14 through 27. Highlights of eight reports containing other significant findings and observations are presented on pages 28 through 63. In addition, our reports contain non-monetary findings addressing areas of noncompliance with laws or regulations, weaknesses in internal controls, and economies and efficiencies to improve operations.

All reports issued in calendar year 2022 are identified on a schedule on page 64 and are available for review on our website.

DEPARTMENT OF LAW AND PUBLIC SAFETY DIVISION ON CIVIL RIGHTS, DIVISION OF HIGHWAY TRAFFIC SAFETY, DIVISION OF ALCOHOLIC BEVERAGE CONTROL, AND NEW JERSEY RACING COMMISSION

Non-Payroll Expenditures

Internal controls over the non-payroll expenditure processing should be strengthened.

The purpose of internal control is to provide adequate checks and balances to ensure financial transactions are properly authorized and recorded. Management is responsible for establishing and maintaining internal controls that safeguard assets from loss or unauthorized use. Proper segregation of duties, adherence to state regulations, and maintenance of accurate and complete documentation are necessary to ensure the proper use of resources. Failure to implement internal controls increases the risk of errors or improper payments occurring without detection by management.

To assess internal controls over Division on Civil Rights, Division of Alcoholic Beverage Control, and New Jersey Racing Commission non-payroll expenditures, we tested a sample of transactions from fiscal years 2019 and 2020. We judgmentally selected 66 transactions totaling $5,420,736 from a population of 5,292 transactions totaling $131,778,243 based on the type of expenditure, vendor, and dollar amount. For 26 transactions totaling $3,015,191, we did not receive sufficient supporting documentation, such as invoices, receipts, vehicle justification forms, expense calculations or breakdowns, or evidence of quotes required by Department of Treasury circulars for Delegated Purchasing Authority (DPA) purchases. Therefore, we were not able to verify if all transactions were related to programs and justified, were mathematically accurate, and recorded in the correct fiscal year. In addition, we did not receive any supporting documentation for two transactions totaling $8,026 despite multiple follow-up requests.

To assess internal controls over Division of Highway Traffic Safety non-payroll expenditures, we tested a sample of transactions from fiscal years 2019 and 2020. We judgmentally selected 19 transactions totaling $872,930 from a population of 2,531 transactions totaling $21,355,968 based on the type of expenditure, vendor, and dollar amount. For 7 transactions totaling $92,242, we did not receive sufficient supporting documentation such as purchase orders, receipts, expense calculations or breakdowns, or evidence of quotes required by Department of Treasury circulars for DPA purchases. Therefore, we were not able to verify if all transactions were mathematically accurate and if goods or services were received. In addition, we did not receive any supporting documentation for one transaction totaling $147,842 despite multiple follow-up requests.

DEPARTMENT OF TRANSPORTATION
BUREAU OF TRANSPORTATION DATA AND SUPPORT
CRASH RECORDS UNIT

Background

Pursuant to N.J.S.A. 39:4-131, every law enforcement officer who investigates a vehicle accident for which a report must be made shall forward a written report of such accident to the New Jersey Motor Vehicle Commission (commission) within five days of the investigation's conclusion. Pursuant to N.J.S.A. 39:5-30d, whenever a fatal accident occurs, an investigation of the incident shall be completed and forwarded within 72 hours of the time of the accident. Although the commission is responsible by statute to administer these reports, it relies on the Department of Transportation (department) for collecting, tracking, storing, and reviewing the associated data.

Each crash report consists of 149 data fields (crash data) containing pertinent information, including the location, cause, conditions, and persons and vehicles involved. Once the unit reviews the crash data for completeness, it is considered verified and is uploaded into Accident Records Database (ARD) "production", which allows the data to become accessible to other government agencies either directly or through Safety Voyager, another department web-based application. Safety Voyager is a crash analysis tool used by designers, planners, traffic engineers, law enforcement agencies (LEAs), and others to identify accident causes, determine areas of focus, prioritize locations of high crash frequency, develop traffic safety countermeasures, and allocate resources. This information is often used to support federal and state grant applications and prioritize decisions regarding safety issues impacting roadways. In addition, the department publishes annual crash tables to the department's website for public use. All crash data accessible to other government agencies or the public excludes personal identifying information.

Modernizing Crash Report Submissions

Crash reports are not required to be submitted electronically.

The unit verified an average of 280,000 crash reports during calendar years 2018 and 2019. The actual number of crash reports received exceeds this amount because updated crash reports are submitted to revise or add information. There is no requirement for LEAs to submit electronic crash reports. In calendar year 2019, only one of 536 LEAs submitted electronic crash reports. This LEA accounted for 15 percent of verified crash report submissions. The remaining 85 percent were submitted as paper copies through the mail or digitally-scanned copies through a secure file transfer account.

Processing paper or digitally-scanned reports is labor intensive and time consuming. After the unit manually sorts the crash reports received, they are sent to a state contract vendor. The vendor converts the data to an electronic format and scans the paper crash reports to create a digital image. These services cost the department $2.2 million in calendar year 2019. After the data is sent back to the department to be uploaded to the ARD, the unit compares certain fields from the

DEPARTMENT OF TRANSPORTATION
BUREAU OF TRANSPORTATION DATA AND SUPPORT
CRASH RECORDS UNIT (continued)

digital image of the crash reports, such as the accident's exact location, to ensure those fields are populated. If these fields are incomplete, the unit will contact the LEA, and the crash report will remain unverified in the ARD until this data is supplied. Once verified, the data is uploaded to the ARD "production", allowing other agencies access to the data. Per management, the majority of LEAs also convert their hand-written crash reports to an electronic record using contract vendors. However, prior to July 2021, the LEAs were not able to submit the electronic records to the department, resulting in a duplication of effort.

In July 2021, the department launched the New Jersey Crash Records Portal (portal) to allow LEAs to submit electronic crash reports through an online portal at no cost to the LEAs. As of March 31, 2022, we noted only 18 LEAs were submitting crash reports through the portal. We estimate these submissions accounted for only two percent of all annual verified crashes. While crash reports submitted through the portal are still subject to the unit's usual verification process, they do not require additional work by the state contract vendor.

LAKEWOOD PUBLIC SCHOOL DISTRICT

Background

Appointment of State Monitor

Pursuant to N.J.S.A. 18A:7A-55, the Commissioner of Education shall have the authority to appoint a state monitor to provide direct oversight of a district's fiscal operations if the district ends the fiscal year with a deficit balance as calculated for budgetary purposes in the general fund. A state monitor has been appointed to the district since April 2014.

Recommendation of State Aid Advance Loan

Pursuant to N.J.S.A. 18A:7A-56, the Commissioner of Education shall recommend to the state treasurer whether a state aid advance loan (loan) should be made to a district for which a state monitor has been appointed. The loan shall be recorded by the district as revenue for budgetary purposes for the school year in which it is provided and shall be repaid by the district over a ten-year period through automatic reductions in state aid provided in subsequent years. From fiscal years 2014 through 2018, the Lakewood Public School District (district) received $18.7 million in loans.

The table below presents the total revenues and top 10 expenditure accounts of the district from the fiscal year 2014 through 2018 Comprehensive Annual Financial Reports.

Lakewood Township School District
General Fund
Revenues and Selected Expenditures
For Fiscal Years 2014 through 2018

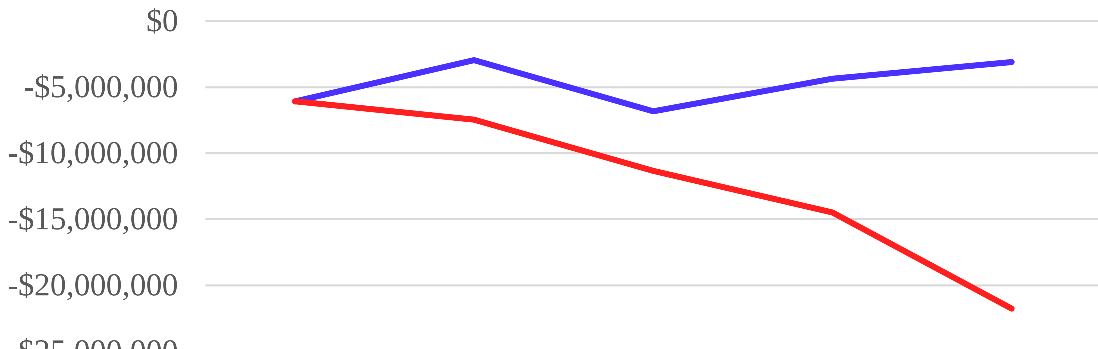
Revenues	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**
Local	$ 78,341,981	$ 86,577,025	$ 92,869,018	$ 95,873,689	$ 98,699,341
State	34,268,921	34,560,679	36,911,671	41,361,205	46,597,928
Federal	414,583	646,603	566,410	1,375,024	1,255,292
Loan	-	4,500,000	-	5,640,183	8,522,678
Total	$ 113,025,485	$ 126,284,307	$ 130,347,099	$ 144,250,101	$ 155,075,239
Selected Expenditures					
Tuition	$ 22,989,657	$ 26,829,198	$ 28,137,315	$ 30,505,479	$ 33,313,940
Student Transportation Services	21,459,999	23,235,597	26,343,391	25,732,995	29,743,559
Employee Benefits	10,305,594	15,901,672	18,385,404	19,997,879	21,970,547
Regular Programs Instruction	18,525,428	16,658,271	17,971,553	17,632,682	17,587,026
Pension Contributions	5,869,019	6,575,852	7,644,700	8,792,808	10,398,267
Custodial Services	4,502,477	3,836,850	4,537,320	5,112,056	4,707,043
Speech, OT, PT, and Related Services	3,271,117	2,554,913	2,913,690	3,436,016	4,021,606
Bilingual Education	2,666,300	3,484,072	3,394,601	3,154,499	3,142,147
Support Services School Administration	2,649,593	2,626,374	2,998,682	3,041,283	3,040,974
Resource Room	2,713,452	2,425,549	2,737,147	2,171,191	2,912,037
Total	$ 94,952,636	$ 104,128,348	$ 115,063,803	$ 119,576,888	$ 130,837,146

LAKEWOOD PUBLIC SCHOOL DISTRICT (continued)

General Fund Budgetary Deficits

From fiscal years 2014 through 2018, the district reported deficits in the general fund unassigned fund balance. During this period, expenditures exceeded amounts appropriated by $19.1 million. Also during this period, the district received $18.7 million in loans to help balance its budgets. Despite receiving $18.7 million in loans, the district still reported deficits in the general fund unassigned fund balance. The following chart depicts the deficits in the general fund unassigned fund balance for each fiscal year during this period with and without the receipt of the loans.

**General Fund Budgetary Deficits
With and Without Loans by Fiscal Year**



	2014	2015	2016	2017	2018
With Loans	-$6,066,945	-$2,952,396	-$6,824,592	-$4,353,898	-$3,100,041
Without Loans	-$6,066,945	-$7,452,396	-$11,324,592	-$14,494,081	-$21,762,902

LAKEWOOD PUBLIC SCHOOL DISTRICT (continued)

The table below summarizes the fund balance position and highlights pertinent information from the district's Comprehensive Annual Financial Reports.

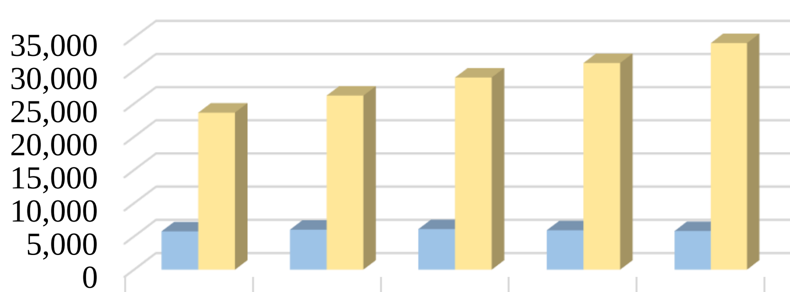
Fiscal Year	2014	2015	2016	2017	2018
Fund Balance, Beginning Year	$ 2,167,636	$ (5,966,483)	$ (2,952,396)	$ (3,791,814)	$ (3,503,104)
Revenues	$ 113,025,485	$ 126,284,307	$ 130,347,099	$ 144,250,101	$ 155,075,239
Expenditures	$ 120,407,030	$ 123,299,894	$ 135,914,789	$ 147,056,328	$ 154,212,273
Excess (Deficiency) of Revenue Over (or Under) Expenditures	$ (7,381,545)	$ 2,984,413	$ (5,567,690)	$ (2,806,227)	$ 862,966
Committed Year-End Encumbrances	$ -	$ -	$ 2,124,294	$ 476,248	$ -
Assigned Year-End Encumbrances	$ 100,462	$ -	$ 908,484	$ 374,546	$ 960,319
Unassigned Fund Balance, End Year	$ (6,066,945)	$ (2,952,396)	$ (6,824,592)	$ (4,353,898)	$ (3,100,041)
Expenditures Exceeded Appropriations	$ 11,009,756	$ 8,577	$ 7,656,307	$ 396,399	$ -
Transportation and Tuition	$ 44,449,656	$ 50,064,795	$ 54,480,706	$ 56,238,474	$ 63,057,499

* The fund balance at the beginning of each fiscal year is equivalent to the sum of the prior fiscal year-end unassigned fund balance and encumbrances.

Disparity of Public and Nonpublic Student Enrollment

There was a significant and increasing disparity between the number of public and nonpublic students enrolled in the district. From fiscal years 2014 through 2018, public student enrollment averaged 5,925 students at eight schools, whereas nonpublic student enrollment averaged 28,822 students at 110 schools. The average growth of public student enrollment was 13 students per year, and the average growth of nonpublic student enrollment was 2,624 students per year.

Public and Nonpublic Student Enrollment by Fiscal Year



	2014	2015	2016	2017	2018
Public Enrollment	5,767	6,020	6,100	5,920	5,819
Nonpublic Enrollment	23,652	26,219	28,954	31,137	34,146

LAKEWOOD PUBLIC SCHOOL DISTRICT (continued)

Overall, public student enrollment increased 52 students (1 percent), and nonpublic student enrollment increased 10,494 students (44 percent). The district receives state aid based on the public student enrollment. This puts a substantial strain on district finances because of the statutory requirements to provide mandated transportation to both public and nonpublic students, as well as tuition for special education students sent out of district to in-state approved private schools for students with disabilities.

Transportation and Tuition

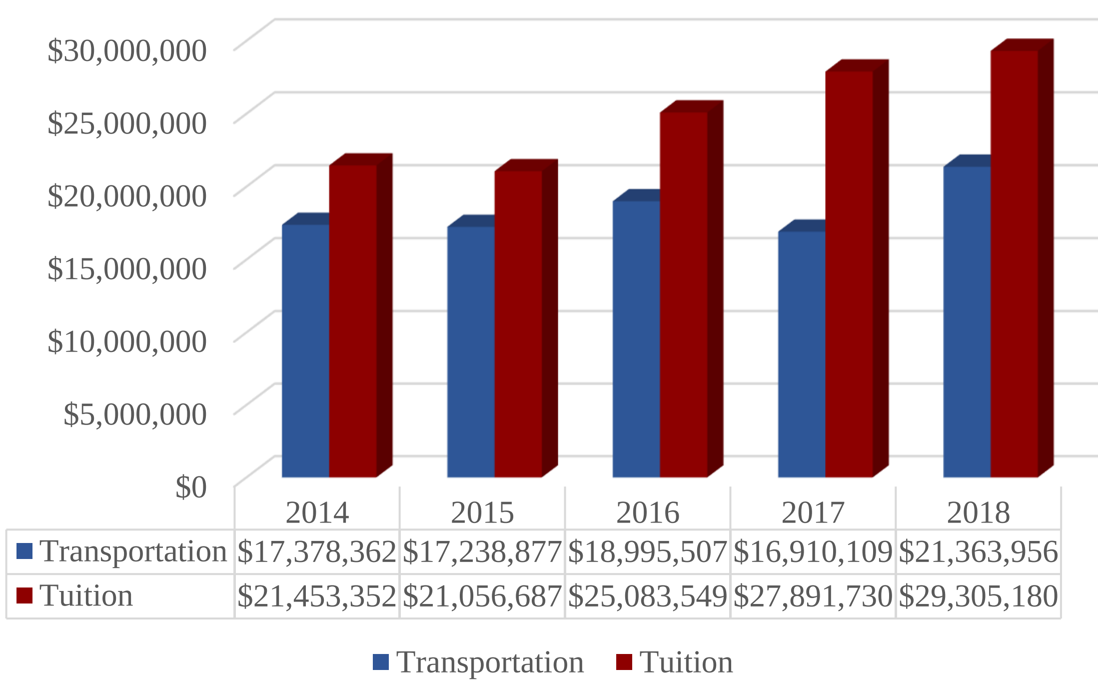
Pursuant to N.J.A.C. 6A:27, a district shall provide mandated transportation to public and nonpublic students who reside remote from their assigned school of attendance. The district incurred significant and escalating expenditures for transportation, paying a total of $126.5 million from fiscal years 2014 through 2018. Of this amount, $91.9 million (73 percent) was paid for mandated nonpublic students sent to nonpublic schools. The average annual transportation cost paid for these students was $18.4 million, with an overall increase of $4.0 million (23 percent). The average annual number of nonpublic students transported to nonpublic schools during this period was 27,153, with an average annual transportation cost of $678 per student.

In addition, pursuant to N.J.A.C. 6A:14, a district shall pay tuition for all special education programs and required services after receiving individual student placement approval. For students placed in in-state approved private schools for students with disabilities, the district shall use tuition contracts. The district incurred significant and escalating expenditures for tuition, paying a total of $141.8 million from fiscal years 2014 through 2018. Of this amount, $124.8 million (88 percent) was paid for special education students sent out of district to in-state approved private schools for students with disabilities. The average annual tuition for these students was $25.0 million, with an overall increase of $7.9 million (37 percent). The average annual enrollment for students placed in in-state approved private schools for students with disabilities during this period was 309 students, with an average annual tuition rate of $80,906.

LAKEWOOD PUBLIC SCHOOL DISTRICT (continued)

The chart below depicts the trend of mandated transportation costs for nonpublic students sent to nonpublic schools and tuition for special education students sent out of district to in-state approved private schools for students with disabilities.

Transportation and Tuition Costs by Fiscal Year



	2014	2015	2016	2017	2018
Transportation	$17,378,362	$17,238,877	$18,995,507	$16,910,109	$21,363,956
Tuition	$21,453,352	$21,056,687	$25,083,549	$27,891,730	$29,305,180

Observation

Efficiency Standards for Administrative & Non-Instructional Expenditures

Pursuant to N.J.A.C. 6A:23A-9.3, efficiency standards and the Taxpayer's Guide to Education Spending (TGES) shall be considered in determining whether a district has implemented all potential administrative efficiencies and/or eliminated all excessive non-instructional costs. The TGES compares all dollars spent on the public student population without taking into consideration the nonpublic student population. In fiscal year 2018, the district had not implemented all potential administrative efficiencies and/or eliminated all excessive non-instructional costs. We identified the following areas where the district did not have efficient administrative and non-instructional costs.

- Support services cost per pupil equal to or less than the state median

- Legal services cost per pupil equal to or less than the state average

LAKEWOOD PUBLIC SCHOOL DISTRICT (continued)

- Transportation efficiency rating equal to or more than 120 percent

According to the TGES, the district's support services cost per pupil was $3,125, while the state median was $2,368. This was $757 per pupil, or 32 percent, above the state median. The district spent a total of $17,549,722 on support services, while the state median was $13,298,477. This was $4,251,245, or 32 percent, above the state median.

According to the TGES, the district's legal services cost per pupil was $135, while the state average was $43. This was $92 per pupil, or 214 percent, above the state average. The district spent a total of $758,148 on legal services, while the state average was $241,484. This was $516,664, or 214 percent, above the state average.

The district's transportation efficiency rating, which is calculated by dividing student ridership by vehicle capacity, was 88 percent, while the state standard was 120 percent. This resulted in a variance of 32 percent below the standard level of efficiency for vehicle capacity.

If the district's expenditures were in line with the TGES standards, these administrative and non-instructional efficiencies could have saved the district as much as $4,767,909, as summarized in the table below.

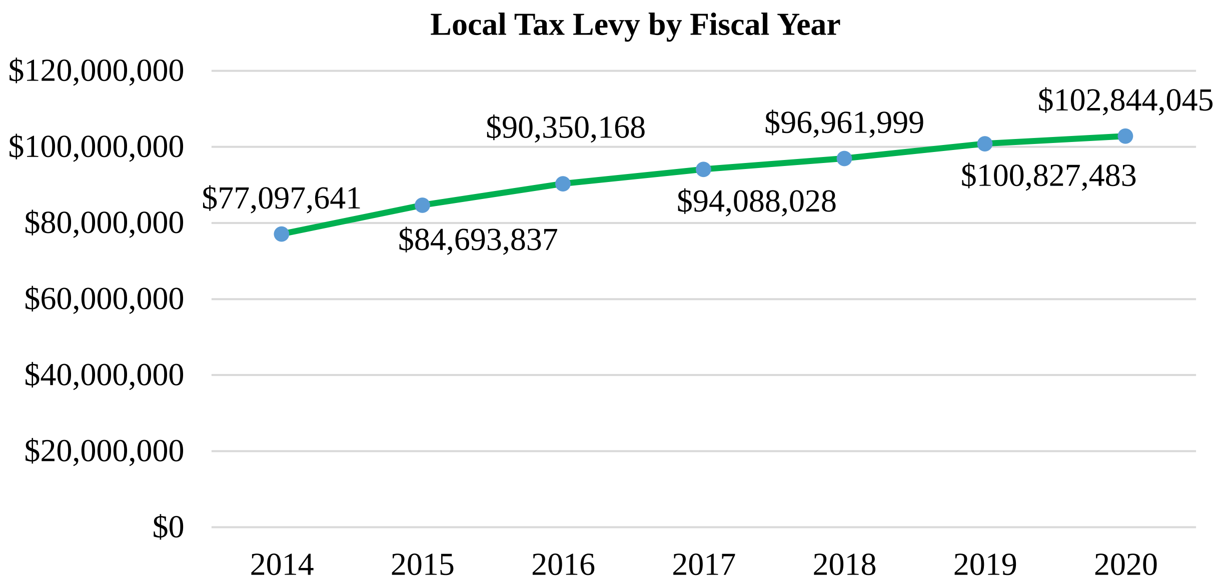
Administrative and Non-Instructional Expenditure	Potential Savings
Support Services	$ 4,251,245
Legal Services	516,664
Total	**$ 4,767,909**

Observation

Limited Growth in Local Revenue from Tax Levy

Pursuant to N.J.S.A. 18A:7F-38, a district shall not adopt a budget with an increase in its adjusted tax levy that exceeds the sum of the pre-budget year adjusted tax levy multiplied by 2.0 percent and adjustments for increases in enrollment, health care costs, amounts for certain normal and accrued liability and pension contributions, and other external factors. This law caps the district's ability to generate a substantial amount of additional revenue from the local tax levy each fiscal year, which hinders its ability to reduce budget deficits. From fiscal year 2014 to 2020, revenue from the local tax levy increased $25.7 million (33 percent), with an average annual increase of $4.3 million (five percent). The following chart depicts the growth in the local tax levy during this period.

LAKEWOOD PUBLIC SCHOOL DISTRICT (continued)



The New Jersey Department of Education (DOE) provides an estimate of a district's local fair share based on equalized valuation and district income. The table below depicts the difference between the local tax levy per the district and the local fair share per the DOE.

Fiscal Year	Local Levy per District	Local Fair Share per DOE	Difference
2018	$ 96,961,999	$ 102,034,106	$ 5,072,107
2019	100,827,483	111,534,172	10,706,689
2020	102,844,045	123,904,450	21,060,405
Total	**$ 300,633,527**	**$ 337,472,728**	**$ 36,839,201**

From fiscal year 2018 to 2020, the district could have generated an additional $36.8 million had it been able to raise the local tax levy. This could have helped provide additional revenue to the district to eliminate the budget deficits, as well as lower the amount of loans required to balance the budgets.

STOCKTON UNIVERSITY

Employee Health and Dental Benefits

Controls over the cancellation of benefits and recovery of employee contributions during unpaid leaves of absence can be strengthened.

Enrollment Errors

Full-time employees of Stockton University (university) are eligible to participate in the state's Division of Pensions and Benefits, State Health Benefits Program (SHBP) for health (consisting of medical and prescription drug coverage) and dental benefits. Financing for the premiums is provided to the SHBP through state appropriations and offset by required employee contributions. The SHBP relies on the university to ensure only eligible employees are enrolled and to collect the required employee contributions. Certain part-time employees are eligible to enroll in the SHBP provided they pay the full cost of premiums.

The university had 1,116 active employees enrolled in health and/or dental benefits according to the June 2020 enrollment report from the SHBP. We compared that report to university payroll records from the same time period and identified three individuals who were enrolled but were not contributing toward their coverage, and noted the following errors:

- One individual separated in June 2015 but was still enrolled in health and dental benefits. The university was able to terminate this individual's coverage retroactively to an effective date of June 1, 2019. Health and dental premiums during the period of ineligibility for this individual were $41,277.

- Another individual retired in July 2011 but was still enrolled in dental benefits as an active employee. This individual's coverage was later terminated with an effective date of June 1, 2020 after we brought it to the university's attention. Dental premiums after the employee had retired were $4,139.

- A third individual had waived medical coverage in October 2016 but was still enrolled in prescription drug coverage. No contributions were deducted from the employee's pay and coverage continued until January 1, 2021. Prescription drug premiums during the period in which the employee made no contributions were $24,155.

The human resources office manually performs quarterly reconciliations between the SHBP reports of enrolled employees and university records. Manually performing this process can be cumbersome as there are over 1,000 university employees with SHBP coverage. Inaccuracies in SHBP enrollment can result in individuals receiving coverage without making their required contributions and could lead to increased administrative fees and claims paid by the state for individuals who are no longer eligible.

STOCKTON UNIVERSITY (continued)

Unpaid Leaves of Absence

Employees on unpaid leave of absence are required by SHBP guidelines to remit their regular contributions to continue benefit coverage. We noted five individuals were on unpaid leave of absence during June 2020. We requested documentation indicating the five individuals made their required contributions and found that only one had done so. The remaining four individuals were contacted subsequent to our inquiry and have either paid in full or agreed to repayment plans.

We judgmentally selected two additional pay periods (one in fall 2019 and one in fall 2020) to verify whether individuals on unpaid leaves of absence made their required contributions. We identified an additional six individuals enrolled in the SHBP while on unpaid leave, with four of the six individuals not making reimbursement payments until 3 to 21 months following their return from unpaid leave. All six have now either remitted their contributions in full or part. The university did not have adequate controls in place to ensure individuals on an unpaid leave of absence remitted their contributions toward the cost of SHBP coverage in a timely manner. Delays in the collection of employee contributions can hinder the university's ability to recover these amounts on behalf of the SHBP.

Faculty Overpayments

The university should improve the accuracy of overload and adjunct compensation.

The metric used to quantify faculty and adjunct faculty workload is teaching credit hours (TCH). The basic academic year workload for a full-time faculty member is 24 TCH. Full-time faculty who work in excess of the required 24 TCH receive overload compensation at a rate specified in the collective bargaining agreement. Adjunct faculty are compensated for the number of TCH earned at the adjunct rate specified in a separate collective bargaining agreement.

In the 2019-2020 academic year, 321 faculty had overload earnings totaling $2.67 million and 401 adjunct faculty earned $4.73 million. We reconciled payroll records to workload reports for 100 faculty members with the highest overload earnings and 100 adjunct faculty members with the highest adjunct earnings during this period, totaling $1.81 million and $1.86 million, respectively. We found two overpayments of $11,800 and $10,167 in fall 2019, both the result of errors in the calculation of their pay rate.

In fall 2020, 141 faculty had overload earnings totaling $1.19 million, and 360 adjunct faculty earned $2.97 million. We reconciled payroll records to workload reports for 100 faculty members with the highest overload earnings and 100 adjunct faculty members with the highest adjunct earnings during this period, totaling $1.07 million and $1.29 million, respectively. We found one overpayment of $7,084 was the result of four TCH erroneously compensated as overload. We also found an overpayment totaling $228 caused by a data entry error in an adjustment to a faculty member's workload.

STOCKTON UNIVERSITY (continued)

Procurement

Controls over the use of purchase orders and purchase cards can be strengthened.

Purchase Orders

The primary method of procurement at the university is through purchase orders. The university paid 11,236 invoices totaling $49,046,659 on purchase orders between July 1, 2018 and November 16, 2020. We randomly sampled 40 invoices totaling $633,453 for goods and services procured through the use of purchase orders. This sample included 20 invoices for purchase orders that were above the bid threshold per NJSA 18A:64-54, 10 invoices between the quote and bid thresholds, and 10 invoices that were below the quote threshold. Our testing of these invoices disclosed the following issues:

- Six invoices (15 percent) totaling $11,670 were confirming orders. A confirming order is a purchase of goods or services before a purchase order has been authorized. The use of confirming orders is a violation of university policy and increases the risk that a budget could be overspent because of unrecorded liabilities.

- Two invoices (five percent) totaling $54,551 lacked proof of receipt. University policy requires the completion of an electronic acknowledgment of receipt before payments are processed.

Purchase Cards

As of August 2020, the university had 492 active purchase cards, which are issued to employees and departments for business purchases. In fiscal years 2019 through 2021, there were 48,710 card transactions totaling $13.7 million. The university uses a web-based card management system to track and monitor all card spending. Support documentation and approvals are maintained on the web-based system.

We randomly selected 50 transactions totaling $14,802 to test compliance with the university's card policy and procedures and noted the following weaknesses:

- Nine of 50 transactions (18.0 percent) totaling $3,027 were not fully authorized in a timely manner. All transactions require signature by the cardholder, approver, and accountant. University policy requires these approvals be completed timely; however, the time frame in which they must be completed is not defined. We used a threshold of 40 days in our testing; this allows 30 days for the review of transactions and an additional 10 days for any issues to be resolved.

STOCKTON UNIVERSITY (continued)

- Five of 50 transactions (10.0 percent) totaling $481 did not have adequate support documentation. These included three transactions where the receipt was not itemized, one where the incorrect receipt was uploaded, and one where no business purpose was provided to justify the purchase of coffee and donuts. Without an itemized receipt we could not determine if items purchased were allowable by policy.

- Three of 31 transactions (9.7 percent) totaling $904 required pre-approval but did not contain evidence of prior authorization.

- Two of 48 transactions (4.2 percent) included New Jersey sales tax totaling $5.80, which is not allowed by policy.

Strong internal controls over the use of purchase cards are necessary to mitigate the risk of improper or erroneous charges. A longer review period for transactions increases the risk that support documentation could be misplaced or erroneous charges are not credited back to the university.

ACCOMPLISHMENTS AND RESULTS
OTHER FINDINGS AND OBSERVATIONS OF INTEREST

DEPARTMENT OF CORRECTIONS
EDNA MAHAN CORRECTIONAL FACILITY FOR WOMEN

Background

The Edna Mahan Correctional Facility for Women (facility) opened in 1913 and is located in Clinton, New Jersey in Hunterdon County. The facility is New Jersey's only correctional institution for women within the New Jersey Department of Corrections (department). It provides custody and treatment programs for female offenders 16 years of age and older, and it houses inmates at all security levels in multiple housing units with a total operational bed capacity of 787. The facility provides comprehensive adult-oriented academic education programming that includes Career Readiness, Workforce Learning Link, Career Technical Education, Child Study Team services, High School Diploma Program for school-age eligible students, and postsecondary educational opportunities. The State Use sewing industry provides work experience and training. Psychiatric, psychological, and social work services are also available on an individual and group basis.

As shown in the charts below, from fiscal year 2018 to fiscal year 2021 the facility's average daily inmate population decreased 38 percent from 615 to 379, while the average cost per inmate increased 69 percent from $80,678 to $136,588.

Average Daily Inmate Population			
FY2018	**FY2019**	**FY2020**	**FY2021**
615	615	569	379

Average Cost per Inmate			
FY2018	**FY2019**	**FY2020**	**FY2021**
$80,678	$88,301	$88,359	$136,588

According to facility personnel, the decrease in inmate population in fiscal year 2021 was the result of a combination of factors, including the Public Health Emergency Credit Act and the Earn Your Way Out Act, both implemented in calendar year 2020. The Public Health Emergency Credit Act allowed inmates to reduce their sentences by up to eight months by accruing COVID-19 public health credits, while the Earn Your Way Out Act allowed some inmates convicted of non-violent crimes to be paroled early. The facility personnel further stated that increases in alternative sanctions, such as Drug Court and the Intensive Supervision Program, and an increase in sentencing processing time caused by the COVID-19 pandemic contributed to the decrease in the inmate population.

DEPARTMENT OF CORRECTIONS
EDNA MAHAN CORRECTIONAL FACILITY FOR WOMEN (continued)

Commissary and Housekeeping/Storeroom Security

Security within certain areas of the facility needs improvement.

The commissary is located in one of the food service buildings and contains items inmates can purchase, such as snack foods, beverages, condiments, stationary, and electronics. Items with a greater risk for inventory loss, such as candy and batteries, are located in a fenced-off area within the commissary. The housekeeping/storeroom is located in a separate building.

During our walkthrough of the facility on August 7, 2019, we noted the commissary and housekeeping/storeroom areas were unmonitored by either cameras or custody posts, with blind spots and no clear line of sight from the front to the back of the housekeeping/storeroom area. Both areas are operated by civilian employees, as well as by inmates through their work assignments, and at times only one civilian employee is in either of these areas. Additionally, certain items stored in the commissary and housekeeping/storeroom areas are highly coveted by inmates. A lack of monitoring may pose a safety risk to both civilian employees and inmates, and it may increase the risk of inventory loss.

According to department personnel, the number of correctional facilities that had cameras and/or custody posts in their commissary or housekeeping areas as of March 2020, including the Central Reception Assignment Facility, are summarized below.

Commissary and Housekeeping/Storeroom Security

	Commissary	Housekeeping/Storeroom
Facilities with either cameras or custody post	9	8
Facilities lacking cameras or custody post	3	4

In April 2020, the U.S. Department of Justice, Civil Rights Division released a report on its investigation of the facility. The report stated:

> *Prior to 2018, there were limited cameras on the grounds of Edna Mahan and in many instances, staff brought prisoners to unmonitored areas—often in camera "blind spots"—to sexually assault prisoners. NJDOC began installing additional cameras at Edna Mahan in late 2016, but camera coverage was severely lacking during our 2018 on-site review, and remains deficient.*

Regarding cameras, the Minimal Remedial Measures section of the report included the following necessary measures.

DEPARTMENT OF CORRECTIONS
EDNA MAHAN CORRECTIONAL FACILITY FOR WOMEN (continued)

- *Complete and implement the plan for strategic placement of additional cameras at the facility, with appropriate oversight and review of camera footage.*

- *Installed cameras and video maintenance systems should have the capability of retaining video data for not less than 90 days and the capacity to store selected video indefinitely.*

As of November 2021, a new camera system had been installed, with all areas of the commissary now under full surveillance. However, the housekeeping/storeroom area did not receive cameras or a custody post.

Procurement Process

Internal controls over the procurement process should be strengthened.

Management is responsible for establishing and maintaining internal controls that safeguard assets from loss or unauthorized use. Proper segregation of duties, adherence to state regulations, and maintenance of accurate and complete documentation are necessary to ensure the proper use of resources. Non-payroll and non-medical expenditures totaled $7.5 million, $8.2 million, and $576,321 for fiscal years 2018 through 2020 as of September 13, 2019, respectively. We judgmentally selected a sample of 54 expenditure transactions totaling $287,310 based on dollar amounts and vendors unique to the facility. Our testing identified the following internal control weaknesses over procurement.

- Our sample identified noncompliance with the Department of the Treasury Circular Nos. 19-10-DPP and 16-02-DPP regarding delegated purchasing authority (DPA) transactions. The circulars define a DPA transaction as one that cannot be procured through one of the four primary contracting methods and establish the procedures for obtaining price quotes based on specific transaction dollar amounts. Of the 40 applicable expenditures tested, we found nine transactions (23 percent) totaling $61,858 without documentation of a competitive procurement process in accordance with DPA procedures.

- Of the 54 expenditure transactions tested, we found three (6 percent) totaling $59,645 lacked adequate supporting documentation, and three transactions (6 percent) totaling $16,520 did not have the required approval signatures.

- A confirming order is the ordering of goods or services before an authorized purchase order is approved, thus bypassing the procurement process. Our review of 52 applicable transactions found 11 confirming orders (21 percent) totaling $35,834.

Additionally, our test of the state's procurement portal, New Jersey State of the Art Requisition Technology (NJSTART), found a lack of segregation of duties in the procurement process. One individual responsible for processing purchases could create and adjust purchase orders, approve

DEPARTMENT OF CORRECTIONS
EDNA MAHAN CORRECTIONAL FACILITY FOR WOMEN (continued)

the transactions, and process the payments. We judgmentally selected ten NJSTART transactions totaling $42,113 based on user name. Of the ten transactions tested, eight totaling $34,698 were entered and approved by the same user. The population for NJSTART expenditures for fiscal year 2018 through fiscal year 2020 as of December 9, 2019 totaled $710,962.

Officer Scheduling

Correctional Police Officers were scheduled to work more than 16 hours in a 24-hour period.

Correctional Police Officers (officers) work a normal work schedule of eight hours per day. Although the facility's Operations Unit could not locate a written policy, operations management stated every attempt is made to ensure 16 hours is the maximum number of hours an officer can work in a 24-hour period unless the governor declares a state of emergency. Studies indicate even moderate sleep deprivation may produce impairment in cognitive and motor performance. A study performed in the year 2000 tested the effects of sleep deprivation and found test subjects who were awake between seventeen to nineteen hours without sleep performed poorly in tests designed to measure response times, accuracy of responses to stimuli, and hand-eye coordination. This study also indicated that longer hours of being awake resulted in significantly worse performance in tests. Another study aiming to analyze the impact of overtime and extended working hours on the risk of occupational injuries and illness indicated a strong correlation between an increased injury hazard rate and an increased number of hours worked per day in a worker's customary schedule.

The scheduling system used at the facility lacks the controls to prevent scheduling an officer to work more than 16 hours in a 24-hour period. We reviewed the shifts scheduled of every officer at the facility for the first six months of calendar year 2018 and found 71 instances in which an officer was scheduled to work for 18 or more hours during three consecutive shifts. We noted four officers were scheduled to work 32 consecutive hours over the course of four shifts. Two of those four officers were scheduled to do so three or four times during our review. The 71 instances of excessive hours scheduled did not include instances that occurred during New Jersey declared states of emergency. Excessive hours worked in a relatively short time period could cause an impairment of cognitive and motor performance that in turn could have a negative impact on an officer's ability to provide a safe and secure environment for inmates and staff.

DEPARTMENT OF HUMAN SERVICES
CATASTROPHIC ILLNESS IN CHILDREN RELIEF FUND

Background

Approved January 7, 1988, Public Law 1987 Chapter 370 established the Catastrophic Illness in Children Relief Fund (fund) and the Catastrophic Illness in Children Relief Fund Commission (commission). The fund provides financial assistance to families whose children have experienced an illness or condition not fully covered by insurance, any other state or federal program, or any other resource. The fund is designed to provide a financial safety net for families struggling with a child's previously incurred medical expenses.

The fund is governed by a 12-member commission that includes seven public members appointed to five-year terms by the governor. The commissioners of the Departments of Health, Human Services, Children and Families, and Banking and Insurance and the State Treasurer serve ex officio. As of August 16, 2022, the commission had two vacant positions. The commission is responsible for developing policies and procedures for the operation of the fund and meets every two months to review applications, make eligibility determinations, and approve payments.

The office is responsible for administering the day-to-day operations of the fund. It consists of 12 employees, including an executive director, deputy executive director, analysts, financial unit, and administrative staff.

The fund is a non-lapsing, special revenue fund administered by the commission. Revenue to the fund is derived from a $1.50 per employee annual surcharge for all employers subject to the New Jersey Unemployment Compensation Law, which is collected by the Department of Labor and Workforce Development. Any interest earned remains with the fund.

The parent or legal guardian of a child 21 years of age and under who is a resident of New Jersey is eligible to apply to the fund. The commission may award funds to a family whose child has a catastrophic illness, defined in N.J.S.A. 26:2-149 as an illness or condition with eligible medical expenses exceeding 10 percent of the first $100,000 of annual income of a family plus 15 percent of income over $100,000. Income and expenses are measured in any consecutive 12-month period prior to applying, and applications may be submitted for 12-month periods starting as early as January 1988. An applicant child must be a legal permanent resident of New Jersey for at least three months prior to applying. All expenses are subject to program regulations, which include caps for certain types of expenses, with an overall cap of $100,000 per child, per year.

DEPARTMENT OF HUMAN SERVICES
CATASTROPHIC ILLNESS IN CHILDREN RELIEF FUND (continued)

Health Coverage Premiums

Health coverage premiums were not applied appropriately and consistently.

N.J.A.C. 10:155 states:

> *"Fifty percent of a health coverage premium, including supplemental and dependent coverage that is paid by a family, not to exceed 50 percent of total eligible expenses, when accompanied by eligible expenses shall be counted toward calculating eligibility, but shall not be considered an eligible expense for reimbursement from the Fund."*

The fund categorizes health coverage premium expenses in Microsoft Dynamics CRM 2013 (CRM) as "insurance premium" if the whole amount is applied or "adjusted health care" if the amount is capped to not exceed the allowable expenses. For cases presented to the commission between July 1, 2018 and October 20, 2021, we tested expenses identified in CRM as insurance premiums and adjusted heath care. The office had been working on updating the health coverage premium policy prior to our audit. The policy was finalized in October 2021 following our testing period.

In total, there were five cases, with disbursements totaling $21,064, that were incorrectly deemed eligible because health coverage premiums were processed inaccurately. The use of multiple practices when applying health coverage premiums contributed to an inconsistent handling of health coverage premiums and increased the risk of improper payment.

We tested 15 of 71 insurance premium expenses and determined the following:

- Two did not have adequate support.

- Five were not calculated correctly based on the support provided, including one award of $4,242 that would not have been eligible had the allowable insurance premium expense been calculated correctly.

- Seven were subject to the cap based on the allowable expenses, and the cap was not applied. This included two awards totaling $6,388 that would not have been eligible had the insurance premium been capped to not exceed the allowable expenses.

We tested 14 of 22 adjusted health care expenses and determined the following:

- Four did not have adequate support, including one award of $8,214 that should have been deemed ineligible based on the lack of supporting documentation.

DEPARTMENT OF HUMAN SERVICES
CATASTROPHIC ILLNESS IN CHILDREN RELIEF FUND (continued)

- Nine were not calculated correctly based on the support provided.

- Six were subject to the cap and categorized as being capped in CRM based on allowable expenses, but the cap was not applied correctly or at all. This includes one award of $2,220 that would not have been eligible had the health coverage premium been capped to not exceed allowable expenses.

Information Technology — CRM Logical Access and Efficiency

The CRM program used by the office has inadequacies in logical access and efficiency of claims processing.

The *Statewide Information Security Manual* (SISM) requires systems to be configured to automatically log out a user if a session has been idle for more than 30 minutes and to lock the account for a 30-minute period after five consecutive unsuccessful logon attempts by a user within a 90-minute period. CRM does not log off automatically because of inactivity or does not lock out users after multiple incorrect logon attempts. This increases the risk of unauthorized access to the CRM application and data.

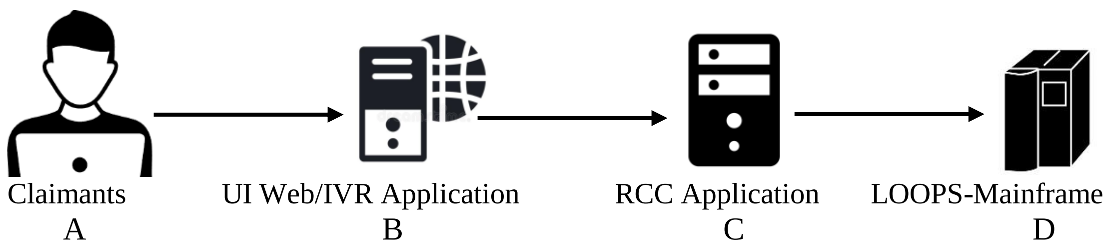
In addition, CRM does not have the proper functionalities to process cases more efficiently. For example, CRM cannot maintain a historical record, it cannot house supporting documentation electronically, and it has no internal mechanism to flag expenses entered that exceed caps. Attempts by the office to contact the contract vendor that administers CRM have received no response.

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT
UNEMPLOYMENT SYSTEMS – INFORMATION TECHNOLOGY OPERATIONS

Background

The filing of a new unemployment claim and the recertification (continuation) of an existing unemployment claim are both achieved through processes that include multiple technological components working together. For security reasons, we are not providing details about these components or their specific controls and connections. However, in order to understand the overall processing of unemployment transactions, the diagram below demonstrates the basic business process flow for new unemployment claims.

Claims Process (New Claims)



A. Claimants access the unemployment insurance (UI) filing processing environment through the web application, the telephone (IVR) system, or direct interaction with a Department of Labor and Workforce Development (department) employee. The department has controls in place to restrict access to the web application by unauthorized users.

B. When using the web or IVR, the claimant either creates an account or logs in to their existing account for the application, and the account is authenticated. Once this is successful, the claimant can file a new claim, recertify a previous claim, or inquire on the status of a previously filed claim.

C. Once the claimant's actions are completed, if the claim is new, the claim information is stored in the department's RCC system after going through various edits and controls. According to the department, all new claims go through the RCC system before going to the mainframe Local Office Online Payment System (LOOPS). If the new claim requires additional intervention by a department employee, it is in the RCC system that the intervention takes place and any initial additions or corrections are done. The RCC system records the date the claim was received by it as well as the date the claim was moved to LOOPS.

D Once the claim is completed in the RCC system, it is moved to the LOOPS mainframe for processing. If a claim requires no intervention, it is typically moved to the LOOPS at the end of the same day it is filed. If it requires intervention, once the appropriate action has been taken and the claim is considered completed, it is moved to the LOOPS at the end of that day. If for any reason the claim is not accepted into the LOOPS, the claim is

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT UNEMPLOYMENT SYSTEMS – INFORMATION TECHNOLOGY OPERATIONS (continued)

labeled with the reason for the rejection in the RCC system, and the claim is addressed by an authorized department employee.

The scope of our audit included the period before the pandemic through the initial claims surge related to the pandemic and into the post-pandemic surge period. For comparison purposes, below are the New Jersey claims volume in eight-month increments, according to the U.S. Department of Labor:

Time Period	Initial Claims Filed	Continued Claims (Recertifications)	Total Transactions
6/30/2019 to 2/29/2020	332,335	3,200,108	3,532,443
3/1/2020 to 10/31/2020	1,744,339	14,241,103	15,985,442
11/1/2020 to 7/3/2021	495,872	4,644,128	5,140,000
7/4/2021 to 3/5/2022	326,260	3,633,217	3,959,477
Total Transactions	2,898,806	25,718,556	28,617,362

The pandemic caused a 425 percent increase in the number of initials claims filed (332,335 to 1,744,339) and a 345 percent increase in recertifications (3,200,108 to 14,241,103) from the eight months prior to the pandemic to the first eight months of it. In addition, various new federal and state mandates created an increased need for changes to the LOOPS application. Below is the number of LOOPS program changes between July 1, 2019 and February 28, 2022 in eight-month increments:

Time Period	LOOPS Program Changes
7/1/2019 to 2/29/2020	30
3/1/2020 to 10/31/2020	120
11/1/2020 to 6/30/2021	76
7/1/2021 to 2/28/2022	70
Total	296

Increases of that size put an additional burden on not only the technological infrastructure of the unemployment application but also on the department's information technology staff to manage the claims processing environment and its components.

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT
UNEMPLOYMENT SYSTEMS – INFORMATION TECHNOLOGY OPERATIONS
(continued)

Observation

Information Technology Service Management

Entities create value by providing services to their customers in an effective and efficient manner. Information technology service management is a comprehensive program that allows an organization to ensure that it provides services to its customers with confidentiality, availability, and integrity of the processing environment. Aspects of service management include availability, business analysis, capacity and performance management, incident management, and monitoring and event management.

The U.S. Department of Labor reported that New Jersey had approximately 1.0 million new unemployment claims between March 1, 2020 and May 2, 2020 and approximately 3.0 million claims recertifications during this same period for a total of 4.0 million transactions entering the UI processing environment during that time. This represents a 993 percent increase in new claims and a 201 percent increase in recertifications from the previous period of the same length. Based on this increase, we used the period March 1, 2020 through May 1, 2020 as the period to evaluate the information technology service management level of the department during the initial pandemic surge in unemployment insurance claims. We considered three major questions when evaluating the department's information technology service management:

1. Did the department have a comprehensive understanding of its claims processing environment prior to the pandemic?

   We documented the department's understanding of the processing environment for unemployment insurance claims from the initiation of the transactions through the processing of the claims in the LOOPS system. We found that the department had a comprehensive understanding of its processing environment. Although we did note some deficiencies in the disaster recovery and business continuity plans as noted in a later finding, we also noted that no outage of any component of the processing environment lasted long enough to require either of these plans to be initiated; therefore, these deficiencies did not have an impact on the processing environment.

2. Did the department analyze and plan for the potential increase in claims volume, identify potential weaknesses in its environment that could impact its ability to deal with the increase, and adjust the environment to address weaknesses identified?

   The department stated that it did not do any dedicated planning or make configuration adjustments in preparation for the pandemic surge in claims but rather took a reactive approach to changing the web portion of the processing environment as the monitoring mechanisms in place informed the department of potential issues. There were 29 changes

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT UNEMPLOYMENT SYSTEMS – INFORMATION TECHNOLOGY OPERATIONS (continued)

made to various configuration settings in this aspect of the processing environment between March 17, 2020 and April 14, 2020 to address issues with performance. We identified that eleven of these changes were increases to the capacity of various components of the web processing application and could have potentially been done prior to the pandemic surge; however, all of the issues were addressed and completed over a six-day period during the initial weeks of the surge and caused no significant delays to claims processing. In the mainframe portion of the processing environment, there was a performance analysis and processor upgrade performed in April 2020 to prevent delays in claims processing in that environment.

The other project that took place during this time to increase security and provide other processing benefits was moving components of the UI processing environment behind a web application firewall. Most of those components were moved in mid-March 2020. In addition, to help address the increased volume, the department enhanced the filing application to enforce required time periods for users to file for new or recertify existing unemployment benefits. The department previously provided a schedule for claimants to log on to the system based on their social security number. However, claimants did not always follow the suggested schedule and continued to attempt to access the application outside of their suggested time period. This enhancement enabled the department to enforce the schedule and deny access to users who were not within their designated time period. An error message was returned to users who attempted to access the system outside of their assigned time period.

3. Did the department monitor the environment and respond effectively to issues that arose to ensure that processing of customer transactions was not excessively delayed?

   We reviewed system activity logs and other monitoring documentation related to the period March 1, 2020 through May 1, 2020 for the unemployment insurance processing environment to determine if issues occurred that would have affected the processing of claims. During this 62-day period, there were 12 incidents over 8 of the days that may have affected a customer’s ability to file or recertify an unemployment claim, with the average incident lasting 84 minutes. Assuming a window of 7 a.m. to midnight each day during the period for the application to be available for filing and recertification while providing the department time for overnight maintenance and upgrades of components, we calculated that the total outage time caused by these incidents accounted for a maximum of 1.6 percent of the available filing/recertification time during the period reviewed. This percentage could be smaller when factoring in days when the maintenance window was not needed. In addition, ten of the twelve incidents were related to components of the unemployment processing environment that were migrated to other devices by May 2020.

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT UNEMPLOYMENT SYSTEMS – INFORMATION TECHNOLOGY OPERATIONS

(continued)

The other aspect of unemployment claims processing at the department is the mainframe programs that process LOOPS data overnight. Our analysis of the mainframe error logs for the period March 1, 2020 through May 1, 2020 identified 67 incidents affecting the successful completion of 121 individual programs during that time. The average recovery time for these issues was approximately seven hours, which is within the overnight window when the LOOPS is offline for processing. Therefore, most incidents were resolved the same night. Eight of the incidents affecting 29 programs did take more than 24 hours to resolve, one of which took longer than 48 hours to resolve. Further analysis found that four of the eight incidents taking longer than 24 hours to resolve occurred on a single day, and the one incident taking longer than 48 hours affected a program that was not related to claims processing.

We identified 1,096 jobs on the daily program schedule for the LOOPS, which calculates to approximately 68,000 total daily mainframe programs run during the 62-day review period. Therefore, the 121 affected programs represented only 0.18 percent of the total daily programs run during the period, of which the programs that took more than 24 hours to resolve represented only 0.04 percent of the total programs. Based on this analysis, we found no evidence that there was an increased number of errors in mainframe program processing caused by the increase in claims from the pandemic, and we found no evidence that the errors that did occur in the mainframe processing during the review period caused any significant delay in the processing of claims by the LOOPS.

Contingency Planning

Contingency planning consists of technical and operational aspects. The technical aspects are the processes connected to backing up and restoring an information technology system to a ready state with minimal loss of time, functionality, and data. The operational aspects are the processes and procedures that are used to put the agencies’ employees and customers in a position to resume normal operations. The *Statewide Information Security Manual* requires agency and OIT management to develop, implement, test, and maintain contingency plans to ensure continuity of operations for all information systems that deliver or support essential or critical functions on behalf of the state. It also requires the agency to update the contingency plans to address changes to the agency, system, or computing environment.

The business continuity plan for the department and the disaster recovery plan for the LOOPS application need to be updated.

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT UNEMPLOYMENT SYSTEMS – INFORMATION TECHNOLOGY OPERATIONS

(continued)

We tested three elements of the business continuity plan and found:

1. Processing Environment: We documented all device names and network locations found in the continuity plan and found that 6 of 55 devices noted in the processing environment of the contingency plan did not match the current environment.

2. Staffing: We identified 37 unique staff members in the continuity plan and found that 15 of them are separated from state service. These roles and functions need to be assigned to new individuals.

3. Network Environment: We identified 98 network locations and device names in the continuity plan that we could independently verify. Of the 98, we identified 16 device names that did not match the name in the plan. In addition, we reviewed the remaining network range assigned to the department and identified 31 devices that were not in the plan but existed on the network.

Regarding the disaster recovery plan, in June 2020 the LOOPS application was moved to a new operating environment, which included using mainframe servers in a new physical location. The OIT contacted the department in March 2022 with a new disaster recovery template and asked the department to complete the new plan and schedule a test. Therefore, the current LOOPS disaster recovery plan includes incorrect physical locations, and the application has not been tested in the new environment.

Since the mainframe environment migration in June of 2020, the OIT disaster recovery team has been working to update the plans for all applications hosted in that new environment. The volume of work that the department had at the time of the migration made updating the plan not feasible, and without an updated plan a test could not be performed. If contingency planning controls are inadequate, even relatively minor interruptions can result in lost or incorrectly processed data, which can cause financial losses, expensive recovery efforts, and inaccurate or incomplete information.

DEPARTMENT OF LAW AND PUBLIC SAFETY
DIVISION OF GAMING ENFORCEMENT

Background

The Division of Gaming Enforcement's (division) primary function is to provide oversight of the casinos and overall gaming in New Jersey. Oversight by the division includes investigations, inspections, and audits. There are nine bureaus within the division consisting of 276 positions (including temporary employees).

The Administrative Services Bureau provides administrative support, including fiscal, human resources, purchasing, travel, ethics, information technology, and facilities management functions for the division.

The Casino Licensing Bureau conducts investigations of each officer, director, principal and key employee, financial backer, and significant investor, and examines the financial background of the casinos and affiliated entities. Other functions of this bureau include analyzing gaming revenue, evaluating debt issuances and bankruptcy reorganizations, overseeing the financial reporting requirements of the casino industry, and monitoring each casino's financial stability. The Casino Control Commission approves the licenses of casinos.

The Records and Identification Bureau reviews license applications for all required documentation and/or corresponding credentials.

The Regulatory Enforcement Bureau investigates potential violations of the Casino Control Act, regulations, and division rules. Its responsibilities include approving and verifying slot and table game placement; enforcing security and surveillance compliance; ensuring compliance with casino regulations; preventing fraud; investigating customer complaints; monitoring for underage gambling and drinking; and verifying revenue for online and land-based casinos.

The Service Industry Licensing Bureau is responsible for ensuring the integrity of those persons and enterprises that provide goods or services to, or for the benefit of, the casino/hotel industry. Through its legal and investigative staff, this bureau registers or investigates each person or enterprise that provides goods or services to a casino or applies for licensure as a casino service industry enterprise for compliance with the standards of honesty, good character, and integrity as set forth in the Casino Control Act.

The Technical Services Bureau is responsible for ensuring the integrity of electronic gaming equipment and internet gaming systems used in New Jersey. This bureau consists of four units that work together to ensure gaming products are fair and compliant with regulatory requirements: Engineering Unit, Cyber Security and Analytics Unit, Information Technology Investigations Unit, and Quality Assurance Unit. Each gaming product must be approved by the division's slot laboratory and must undergo verification prior to its use. The slot laboratory is responsible for testing and approving all games and gaming equipment offered to patrons, as well as their associated systems.

DEPARTMENT OF LAW AND PUBLIC SAFETY
DIVISION OF GAMING ENFORCEMENT (continued)

The Legal Bureau consists of two units: the Casino Entity/Employee Licensing Unit and the Service Industry/Technical Services Regulatory Support Unit. In addition to assisting in drafting regulations, the units handle the legal aspects needed to enforce forfeitures, exclusions, self-exclusions, fines for violations, patron complaints, and violation orders.

The Criminal Enforcement Bureau is composed of New Jersey State Police troopers and detectives. They work together with division employees to solve crimes in and around the casino complex and other various areas.

The Casino Criminal Prosecution Bureau is composed of Division of Criminal Justice prosecutors, investigators, and detectives. Along with the division, they handle criminal elements discovered during the investigatory processes.

Backlogs

The division needs to improve procedures to monitor and track backlogs.

Casino Service Industry Enterprise Licenses

The Service Industry Licensing Bureau (SILB) processes casino service industry enterprise (CSIE) licenses. These licenses are required for gaming-related companies, such as companies that provide online gaming software or those that manufacture playing cards. The SILB conducts investigations by interviewing company personnel, reviewing financial documentation, and obtaining criminal background checks. According to the division, the volume of investigations has increased significantly since the inception of online gaming and sports betting. We reviewed the SILB's backlog and noted there were 1,198 pending new and renewal CSIE applications as of June 30, 2020. Of the 1,198 pending applications, 148 were outstanding from fiscal years 2007 through 2015, and 269 were from fiscal years 2016 through 2018. The division does not maintain the status of each investigation in a database or other computerized system. As a result, it could not provide a reason for the pending status without manually reviewing each file.

According to division management, investigators work on approximately five investigations concurrently for those types of licenses at a time, and each can take eight months to over a year to complete. The division does not want to hinder the gaming industry because of their investigations; therefore, enterprises can be granted transactional waivers allowing them to conduct business on a temporary basis. Transactional waivers are generally for a period of six months; however, they can be extended. There were 54 companies with transactional waivers processed between July 1, 2018 and August 31, 2020. We compared the 54 companies to the division's active vendor report and noted 33 (61 percent) were not licensed as of November 22, 2020.

DEPARTMENT OF LAW AND PUBLIC SAFETY
DIVISION OF GAMING ENFORCEMENT (continued)

Renewals for Casino Service Industry Enterprise Licenses

Pursuant to N.J.A.C. 13:69A, certain CSIE licensees must submit documentation that they continue to meet statutory requirements every five years. According to the backlog report as of June 2020, there were 256 renewal license applications pending. Interviews with division personnel indicated there was no database to track the status of the renewal applications. In addition, there are no policies in place indicating a deadline for the division to review submitted documentation. Therefore, we used six months after the expiration date of the license as a reasonable timeframe for the division to review renewal documentation. We requested a report with the latest issuance dates of the licenses and were informed the division does not have that reporting capability. However, license approvals are documented in the Director's Actions and Orders (orders), which are posted online. We reviewed the orders posted online and noted there were 47 licenses approved between April 1, 2013 and December 15, 2014. We judgmentally selected a sample of 25 licenses from a variety of vendor types and determined 7 were no longer active vendors and 1 had a different renewal date than originally approved. We tested the remaining 17 licenses, which were to be renewed between April 12, 2018 and December 4, 2019 and noted 12 had their renewal documentation submitted. However, none of the 12 had been processed by the division as of April 2021. The remaining 5 renewal licenses tested were processed timely.

Casino Key Employee Licenses

Any employee involved in the operation of a casino in a supervisory capacity or empowered to make discretionary decisions on either casino operations or on the management of an approved hotel must obtain a casino key employee license from the Casino Control Commission (CCC). These licenses must be renewed every five years, and employees are required to submit their resubmission application five months prior to expiration. According to N.J.A.C. 19:41A-5.6(a), "a casino key employee license shall remain valid unless otherwise suspended or revoked by the Commission or unless the licensee is placed on the Inactive List." The division is responsible for completing an investigation of each applicant and providing the results to the CCC.

There are no written guidelines indicating when the investigations should be completed. However, the division informed us that the standard practice is to complete investigations within six months of the key employee reapplying. We reviewed all pending key employee resubmissions as of November 19, 2020 and noted 240 of 287 (84 percent) key employee investigations had not been completed within six months. Of the 240 exceptions, 75 were received by the division in 2018.

DEPARTMENT OF LAW AND PUBLIC SAFETY
DIVISION OF GAMING ENFORCEMENT (continued)

Gambling Addiction Reports

Gambling addiction reports are not completed in accordance with the statute and written agreement.

N.J.S.A. 5:12-95.18 states: "the division shall annually cause a report to be prepared and distributed to the Governor on the impact of internet gaming on problem gamblers and gambling addiction in New Jersey. The report shall be prepared by a private organization or entity with expertise in serving the needs of persons with gambling addictions, which organization or entity shall be selected by the division." The division and the Department of Human Services entered into an agreement with a vendor for a nine-year period beginning on January 1, 2015 at a cost of $3,860,404 to study gambling addiction based on gambling activity of online patron accounts. The original agreement was for a three-year period from January 1, 2015 to December 31, 2017 at a cost of $1,287,504. It has been extended to December 31, 2023 at an additional cost of $2,572,900. The same vendor was also retained to study sports gaming for a six-year term, effective April 1, 2019 at a cost not to exceed $2,590,525. These studies are funded by casinos that provide access to internet and sports gaming. The studies provide data to the casino industry and the public, recommendations for improvement, and promote responsible internet gaming. The agreements outline the scope of work, the equipment and information needed from all parties, and the annual budget.

Quarterly Expenditure Reports

The two agreements require the vendor to provide expenditure reports on a quarterly basis to the division. We requested the expenditure reports and were informed the division did not receive any expenditure reports from the vendor for the internet gaming studies until February 2021 for the period January 1, 2018 through December 31, 2020. The vendor received $1,091,987 during that time, of which it expended $106,090 to perform the required studies, leaving an unexpended balance of $985,897. Subsequent payments were not provided to the vendor. After the division reviewed the expenditure reports and the outstanding balance in February 2021, payments totaling $434,147 were returned to casinos.

The division has not received any invoices from the vendor for the sports gaming study. As a result, no payments have been collected from the casinos and paid to the vendor.

DEPARTMENT OF LAW AND PUBLIC SAFETY
DIVISION OF GAMING ENFORCEMENT (continued)

Timeliness of Reports

The gaming addiction reports were not submitted timely in accordance with the agreements. The agreements require the vendor to submit the reports annually on January 1st of each year. The latest report for internet gaming was issued on October 2020, which analyzed 2017 calendar year data. The internet gaming report analyzing 2018 calendar year data had not been issued as of February 2022.

Responsible Gaming Report Published Dates			
Data Analyzed (Calendar Year)	**Contractual Publish Date**	**Actual Date Published**	**Months Late**
2014	1/1/2016	8/19/2016	7
2015	1/1/2017	3/23/2018	14
2016	1/1/2018	10/15/2019	22
2017	1/1/2019	10/29/2020	23
2018	1/1/2020	Not Released	-
2019	1/1/2021	Not Released	-

The first sports gaming addiction report was due to have been completed by January 1, 2020, but as of February 2022, it had not been published. The delays potentially inhibit identifying regulatory changes, treatment program improvements, and gambling addiction prevention methods that could be implemented. The vendor stated that the delays were due to missing data and difficulty compiling the data into a standardized format as required by the agreement.

Missing Data

According to the agreement, the data used to create each report should include all data available at the time of the report's creation, starting with the date internet gaming went live in New Jersey. This data is provided by the division through the casinos. The reports published in 2019 and 2020, which analyzed data from calendar years 2016 and 2017, indicated data provided to the vendor had incomplete information, such as missing birthdates, zip codes, and genders of the patrons. Although the vendor was able to analyze the accounts with the missing birthdates and zip codes, the accounts with missing genders were excluded from the studies. An average of 27 percent of the accounts had to be excluded from the 2016 and 2017 calendar year data reports. The division does not verify all accounts and their respective information are included in the data provided to the vendor.

DEPARTMENT OF LAW AND PUBLIC SAFETY
DIVISION OF GAMING ENFORCEMENT (continued)

Observation

Gambling Addiction Treatment Funding

More than half of gambling addiction treatment funding was not disbursed.

The Council on Compulsive Gambling of New Jersey (CCGNJ) estimates there will be 350,000 adults in New Jersey who will battle gambling problems in their lifetime. According to the Association of Professionals Treating Problem Gambling, two-thirds of compulsive gamblers undergoing treatment admit to having committed illegal acts to finance gambling or pay gambling debts.

We analyzed internet gaming revenue and noted an average increase of 26 percent from calendar years 2015 through 2018. However, internet gaming revenue increased 62 and 101 percent from calendar years 2019 and 2020, respectively.

Internet Gaming Win (Revenue)					
2015	2016	2017	2018	2019	2020
$ 148,880,180	$ 196,709,327	$ 245,605,982	$ 298,700,903	$ 482,695,308	$ 970,337,571

N.J.S.A. 5:12-95-29d states that "a casino licensee with an internet gaming permit shall pay annually to the division $250,000 to be deposited into the State General Fund for appropriation by the Legislature to the Department of Human Services, $140,000 of which shall be allocated to the Council on Compulsive Gambling of New Jersey and $110,000 of which shall be used for compulsive gambling treatment programs in the state." N.J.A.C. 13:69A-9.4 requires that 50 percent of the $100,000 initial sports wagering license and a minimum of $100,000 of the sports wagering license renewal should be deposited in the state's general fund for evidence-based prevention, education, and treatment programs for compulsive gambling. There are currently 8 casino licenses with internet gaming permits and 13 sports wagering licenses issued in New Jersey.

From fiscal years 2019 through 2021, $8.35 million was received from these fees, with $4 million being disbursed to treat those with compulsive gambling addictions during the same time period. In budget fiscal year 2020, $2.094 million was de-appropriated based on P.L. 2020, Chapter 43, Section 2. At the end of budget fiscal year 2021, there was approximately $2.95 million remaining in the appropriation unit, which was carried forward to budget fiscal year 2022.

DEPARTMENT OF LAW AND PUBLIC SAFETY
DIVISION OF GAMING ENFORCEMENT (continued)

The following chart shows internet and sports wagering license fees and expenditures for fiscal years 2019 through 2021.

Summary of Internet and Sports Wagering License Fees and Expenditures				
	2019	2020	2021	Total
Fees Collected	$ 2,300,000	$ 2,850,000	$ 3,200,000	$ 8,350,000
Expenditures	(1,300,833)	(1,330,000)	(1,330,000)	(3,960,833)
Not disbursed	$ 999,167	$ 1,520,000	$ 1,870,000	$ 4,389,167

According to the CCGNJ, as of October 2020, substance abuse funding in New Jersey was $11.68 per person compared to gambling addiction funding of $0.11 per person. New Jersey allocates less total and per capita funding than New York, Pennsylvania, and Delaware.

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

Background

The New Jersey Comprehensive Financial System (NJCFS) is the central accounting system for the state and has been operational since May of 1993. The application is primarily written in COBOL MVS language running under a transaction processing system and contains approximately 2,000 modules.

The NJCFS application's primary function is the recording and processing of financial transactions. It comprises eight functional subsystems: Budgeting, Expenditures/Accounts Payable, Revenue/Accounts Receivable, Grants, Projects, Job Costing, Ledgers, and Travel. A secondary function of the NJCFS is to provide reliable accounting data for use in the preparation of financial statements and analysis of financial information. Data is extracted from the NJCFS to the Office of Information Technology (OIT) Enterprise Data Warehouse for use in statement preparation and financial data analysis.

According to information provided by the OIT, as of November of 2020 the NJCFS was accessed real-time by approximately 2,000 users statewide, and batch interfaces to exchange transactions with state agencies were executed on a periodic basis. In addition, there are real-time interfaces with the state's purchasing systems, as well as the Department of Transportation's accounting system, FMIS. Approximately 6,000 transactions are accepted daily into the NJCFS, as well as printing of approximately 3,500 checks per day and sending more than 600 payments through electronic file transfer directly to banks.

The Department of the Treasury, Office of Management and Budget (OMB) is the owner of the NJCFS and the custodian of its data. Application development, maintenance, and production support is provided by the OIT. As of June 2021, the NJCFS application and data were moved to a vendor-managed infrastructure Mainframe-as-a-Service offering, with the processing and real-time replication sites being geographically distant.

Logical Access – Authentication

Access controls limit or detect inappropriate access to computer resources, thereby protecting them from unauthorized modification, loss, and disclosure. Logical access authentication controls require users to provide sufficient evidence of their identity before they are granted access to a system. Entities are responsible for managing authentication controls to ensure that only users who are supposed to access the system can do so. Without adequate access controls, unauthorized individuals, including outside intruders and former employees, can read and copy sensitive data and make changes or deletions that could go undetected. Inadequate access controls also diminish the reliability of computerized data and increase the risk of inappropriate disclosure or destruction

DEPARTMENT OF THE TREASURY
OFFICE OF MANAGEMENT AND BUDGET
NEW JERSEY COMPREHENSIVE FINANCIAL SYSTEM APPLICATION (continued)

of that data. The NJCFS authentication uses Access Control Facility (ACF2), a mainframe security software that handles access control and permission requirements to resources. The Security (STAB) table is used to control access to NJCFS data and, as of February 2021, there were 2,578 authorized users in the STAB table, a total that includes full-time, part-time, and temporary employees. The OMB is responsible for maintaining user access to the NJCFS, which includes adding new users, changing the user ID's security access, and removing users who no longer require access.

Separated employees' user IDs were still active in the NJCFS security table, and their ACF2 user accounts were not suspended timely after separation.

We tested all 2,578 entries in the STAB table and found 294 active user accounts with access to the NJCFS that were associated with individuals who have separated from state service. Although a user may be active in the STAB table, an ACF2 account that has been suspended or retired would prevent the person from accessing the mainframe environment, in turn preventing access to the NJCFS. Accounts that are suspended maintain their date of suspension in the ACF2 record until the account is retired, after which there is no record available to document the suspension date. We looked up the 294 employees' ACF2 accounts in the live system to determine if they still had access to the mainframe environment and found one separated employee with both an active NJCFS and ACF2 account. Of the remaining 293 users, 65 were still in suspended status and had a suspension date in ACF2 that could be used to test the amount of time between their separation and suspension dates. We found that 62 of the 65 user accounts were suspended more than 30 days after their separation date, with an average of 116 days between separation and suspension. As mentioned, although the risk of not disabling the NJCFS user account could be mitigated by the ACF2 suspension, the ACF2 accounts were not suspended timely upon separation, thereby leaving a window where the separated employee could potentially access NJCFS. We performed an analysis of 12 user IDs from the 294 on the STAB table who were still active after their separation date. We found that none of the users processed any transactions between their separation and suspended dates.

The *Statewide Information Security Manual* (SISM) requires agencies to immediately revoke access to systems for any separated users, as well as review users' access rights at least every six months, and a best practice is to maintain evidence of the completed reviews. OMB personnel informed us that they are supposed to review a STAB/ACF2 comparison report to identify inactive NJCFS users; however, this review was not completed during the pandemic because many users were inactive during this period. Relying on the ACF2 control that automatically disables ACF2 accounts after 90 days of inactivity as a compensating control to removing access to the NJCFS for separated users does not comply with the SISM requirements and could lead to unauthorized access to the NJCFS by user IDs belonging to separated employees.

DEPARTMENT OF THE TREASURY
OFFICE OF MANAGEMENT AND BUDGET
NEW JERSEY COMPREHENSIVE FINANCIAL SYSTEM APPLICATION (continued)

Controls over model accounts should be strengthened.

The NJCFS does not allow for the creation of accounts in the STAB table for users without a state employee ID number. To accommodate temporary employees, model accounts are created for these users to obtain access to the NJCFS. Written permission from the OMB is required for the account to be established for a six-month period, after which the OMB contacts the state agency to obtain confirmation to either extend or delete the model account.

We identified 89 model accounts for temporary employees listed in the STAB table. We examined the ACF2 profile for all the model accounts to determine if the account had been suspended or retired. Of the 89 accounts, 42 still had an active ACF2 profile. We reviewed the Approval Log table to determine if any of the 42 accounts had processed transactions and found 20 accounts that had done so. Because these accounts had existed for longer than six months, we requested proof of the approval for the six-month extension from the OMB and found that 12 of the 20 accounts with active access had no proof of extension. Seven of the remaining accounts were for temporary employees who had become full-time employees, though at that point the model account should have been expired and a new standard account using the person’s state employee number created, rather than continuing to use the model account.

The OMB is responsible for monitoring these accounts. Prior to the pandemic, there was a manual process consisting of a physical folder containing the temporary employee profiles and their creation dates. Subsequently, the tracking of these accounts has not taken place because, according to the OMB, the process was not updated.

Disaster Recovery Plan

The NJCFS Disaster Recovery plan needs to be updated.

The SISM states that the agency and OIT management are required to develop, implement, test, and maintain contingency plans to ensure continuity of operations for all information systems that deliver or support essential or critical functions on behalf of the state. Specifically, it states that the agency should update the contingency plan to address changes to the agency, system, or environment of operation, as well as identify critical information system assets supporting agency missions and business functions.

In June 2020, the NJCFS was moved to a new operating environment, which included physically relocating the mainframe servers where the application resides. After reviewing the disaster recovery plan provided by the OIT we found that the current plan, which was last revised in June 2018, had not been updated and continues to reference the old environment. The disaster recovery plan also does not include diagrams of the supporting infrastructure of the application, including critical information system assets and logical connections.

DEPARTMENT OF THE TREASURY
OFFICE OF MANAGEMENT AND BUDGET
NEW JERSEY COMPREHENSIVE FINANCIAL SYSTEM APPLICATION (continued)

The OIT has acknowledged that the plan requires updating for the new operating environment. If contingency planning controls are inadequate, even relatively minor interruptions can result in lost or incorrectly processed data, which can cause financial losses, expensive recovery efforts, and inaccurate or incomplete information. Despite the lack of an updated disaster recovery plan, the OIT and the OMB did organize and conduct a successful disaster recovery test of the NJCFS application in October 2021 within the new operating environment.

DEPARTMENT OF TRANSPORTATION
BUREAU OF TRANSPORTATION DATA AND SUPPORT
CRASH RECORDS UNIT

Crash Report Submissions

The department needs to strengthen their monitoring to ensure LEAs regularly submit crash reports.

The Department of Transportation (department) did not consistently monitor to ensure all law enforcement agencies (LEAs) regularly submit crash reports and did not verify the crash report submissions (submissions) were within the time frames required by statute. There are no procedures in place that require an LEA to certify the number of accidents under its jurisdiction on a routine basis. Additionally, the department does not maintain a master list of LEAs to monitor submissions, including those with zero accidents. Therefore, the department is unable to determine, with certainty, whether an LEA underreported this information. We also noted crash report submission dates are not entered in the Accident Records Database (ARD), thereby preventing the department from determining the timeliness of submissions.

We analyzed the number of submissions from the 525 LEAs that submitted crash reports in one or both of calendar years 2018 and 2019. We found an average of 84 LEAs did not submit crash reports at all for three months or more in each calendar year. In addition, an average of 184 LEAs had a low number of submissions for at least three months when compared to their adjusted yearly average. We calculated the adjusted yearly average by dividing the total number of crash reports received for the calendar year by the total number of months with reported crash data. Based on this analysis, we estimate the department is missing 7,800 and 8,200 crash reports for calendar years 2018 and 2019, respectively.

As a result of our analysis, the department established a new tracking report that calculates 80 percent of the prior five-year average of total submissions for each LEA and highlights those that fall under that threshold. Based on the department's methodology, we identified an additional 18 LEAs that had no submissions for three or more years between calendar years 2015 and 2019. Six other LEAs had submitted crash reports in either calendar year 2018 or 2019 but had no submissions for three or more calendar years between 2015 and 2019. The crash tables for each calendar year on the department's website only includes those LEAs that have submitted at least one crash report during that calendar year. Therefore, the number of LEAs fluctuates based on those with submissions. LEAs with no submissions during this five-year period are not included in the ARD or our analysis.

Per the department, LEAs are not always responsive to inquiries related to a decline in submissions or requests for missing crash report data even though this information is required by statute and is used to improve roadway safety.

DEPARTMENT OF TRANSPORTATION
BUREAU OF TRANSPORTATION DATA AND SUPPORT
CRASH RECORDS UNIT (continued)

Edit Checks

The Accident Records Database does not contain edit checks to identify potential missing records and incomplete data fields.

We found edit checks were not in place to identify potential missing records, incomplete data fields, or improperly coded fields prior to the data being uploaded to the ARD. Additionally, the unit does not evaluate the accuracy of certain fields during the crash report verification process. Failure to ensure records are entered and fields in the ARD are properly populated may impact decisions regarding the prioritization of projects, the design of roadways, the allocation of resources, and the development of countermeasures and other safety programs when this data is relied upon.

The New Jersey Motor Vehicle Commission publishes a manual that provides law enforcement officers with specific instructions on how to complete each data field in the crash report. Each verified crash report is assigned a case number and is entered into the ARD as a unique record. If a data field is not populated, the accident record is not properly completed. Furthermore, certain data fields in the ARD are interrelated, and failure to properly populate these fields may lead to discrepancies when users query the data.

For example, the ARD includes a field for an accident’s severity classification. This field is automatically populated with the highest severity level assigned to any occupant and/or pedestrian involved in the accident, as identified in the physical condition field. If the physical condition field is blank, contains an improper code, or does not exist because an occupant and/or pedestrian record was not entered, an accident’s severity classification may be incorrect. We identified 4,003 accidents with potential injuries to 5,602 occupants in calendar year 2018 based on how the injury, treatment, and/or hospital code fields were populated; however, when querying the severity classification in the ARD, these accidents were not identified as an accident resulting in injury because the physical condition field was blank or contained an improper code. We found the manual directs law enforcement officers to ensure the corresponding injury fields are populated when an occupant's physical condition is populated with certain codes, but it does not direct them to ensure the physical condition field is populated when the injury, treatment, and/or hospital field is populated.

Additionally, we analyzed the interrelationships between the vehicle, driver, and occupant data in the ARD. Each accident record should have information for at least one vehicle and for each occupant of a vehicle, including the driver. We excluded hit and run cases with an unoccupied parked vehicle from our analysis. From the 567,399 cases in calendar years 2018 and 2019, we identified a minimum of 6,974 occupant records that were not entered into the ARD for those two years.

DEPARTMENT OF TRANSPORTATION
BUREAU OF TRANSPORTATION DATA AND SUPPORT
CRASH RECORDS UNIT (continued)

Beginning in July 2021, crash reports submitted through NJ Crash are subject to edit checks developed to identify critical and informational errors. As of March 31, 2022, crash data submitted through this portal were not available for our review. Our review of the New Jersey Crash Records Portal (NJ Crash) data specifications manual identified critical errors that are required to be addressed by an LEA prior to submission. In addition, informational errors were identified that could address certain potential missing data. However, LEAs are not required to address these errors. Furthermore, LEAs are not required to submit crash reports through NJ Crash.

LAKEWOOD PUBLIC SCHOOL DISTRICT

Fiscal Year 2018 General Fund Budgetary Deficit

The district reported a $3,100,041 deficit in the general fund unassigned fund balance despite the receipt of an $8.5 million loan.

On May 7, 2017, in preparation of the original fiscal year 2018 budget, the Lakewood Public School District (district) projected a $14,727,288 deficit comprised of increases in expenditures, new expenditures, and decreases in revenue from the prior fiscal year, as summarized in the following table.

Category	Amount
Health Benefits	$ 2,821,605
Salaries	2,561,333
Revenue Decrease	2,262,711
Charter School Payment	2,128,493
Vendor Payments Nonpublic Transportation	1,895,728
DOE Loan Repayment	1,099,531
Increase to School Budgets Title 1 Reduction	735,045
Transportation Not Including Salaries	686,793
Tuition and Other	536,049
Total Deficit	**$ 14,727,288**

On May 9, 2017, the New Jersey Department of Education (DOE) issued a memorandum that projected an even larger deficit of $16,487,909. To help reduce this amount, the district collaborated with the DOE and the Ocean County Office of Education to make budgetary reductions that would not impact the district’s ability to provide a thorough and efficient (T&E) education. Based on those budgetary reductions, as well as from the deferment of loan and penalty repayments and a health insurance tax levy adjustment that would have been lost because of staff layoffs, the projected deficit was reduced to $10,078,349, as summarized in the following table.

Category	Amount
Projected Budget Deficit	$ 16,487,909
Items Not Required for T&E Education	(3,463,023)
Deferment of Loan and Penalty Repayments	(2,024,327)
Health Insurance Tax Levy Adjustment	(922,210)
Adjusted Deficit	**$ 10,078,349**

LAKEWOOD PUBLIC SCHOOL DISTRICT (continued)

On May 10, 2017, the district's superintendent requested a loan of $10.0 million to be recorded as revenue to help balance the budget. The request cited the district's significant tuition and transportation costs associated with the large, nonpublic student population. The district ultimately received a loan of $8.5 million. Despite the receipt of the loan, the district ended fiscal year 2018 with a deficit of $3.1 million in the general fund unassigned fund balance, as summarized in the table below.

Lakewood Township School District
General Fund
Budgetary Comparison Schedule
For the Fiscal Year Ended in June 30, 2018

Actual Revenue	$ 155,075,239
less Actual Expenditures	154,212,273
Excess Revenues over Expenditures	862,966
add Other Financing Sources	500,416
Excess Revenues Over Expenditures and Other Financing Sources	$ 1,363,382
Beginning Fund Balance	$ (3,503,104)
add Excess Revenues Over Expenditures and Other Financing Sources	1,363,382
Ending Fund Balance	(2,139,722)
less Year-End Encumbrances	960,319
Unassigned Fund Balance	$ (3,100,041)

Additional Factors that Contributed to the Fiscal Year 2018 Deficit

The following additional factors were identified by us that contributed to the deficit in the general fund unassigned fund balance: budgetary controls and over-expenditure of funds; increased expenditures from the prior fiscal year; and a new expenditure not incurred in prior fiscal years.

Budgetary Controls and Over-Expenditure of Funds

Pursuant to N.J.A.C. 6A:23A-16.10, a district board of education shall only approve an expenditure that, when added to the total of existing expenditures, does not exceed the amount appropriated by the district board of education in the applicable line item account. Furthermore, the business administrator or board secretary must certify at monthly board meetings that no budgetary line item account has obligations and payments that, in total, exceed the amount appropriated by the district and that the financial accounts have been reconciled and are in balance. Based on our review of board minutes and budget reports from fiscal year 2018, we identified four months and two line item accounts where this certification did not occur, as summarized on the next page.

LAKEWOOD PUBLIC SCHOOL DISTRICT (continued)

Line Item Account	January	February	March	June
Tuition expenditures	$ (2,915,774)	$ (2,704,312)	$ (2,710,058)	$ (618,618)
Transportation	(1,245,754)	(1,635,792)	(1,767,438)	(1,724,306)
Total Over-Expended	**$ (4,161,528)**	**$ (4,340,104)**	**$ (4,477,496)**	**$ (2,342,924)**

Increased Expenditures from the Prior Fiscal Year

From fiscal year 2017 to fiscal year 2018, there were 92 line item accounts that increased a total of $18.0 million. A summary of the top 10 line item accounts with the most significant increases from the prior fiscal year, totaling $13.8 million, is presented in the following table.

Line Item Account	FY 17	FY 18	Increase
Transportation Services Paid to Vendor	$ 16,910,109	$ 21,363,956	$ 4,453,847
Health Benefits	16,851,980	19,051,383	2,199,403
Pension Contributions	3,339,370	4,823,869	1,484,499
Tuition to Private Schools	27,891,730	29,305,180	1,413,450
Tuition – Other	981,683	2,178,736	1,197,053
Transportation Services – Special Education	942,000	1,753,020	811,020
Transportation Services – Salaries	-	697,986	697,986
Resource Room – Salaries of Teachers	2,163,545	2,821,938	658,393
Capital Outlay – Assets Acquired on Lease	-	493,297	493,297
Professional Education Services	1,417,989	1,831,959	413,970
Total	**$ 70,498,406**	**$ 84,321,324**	**$ 13,822,918**

New Expenditure Not Incurred in Prior Fiscal Years

Pursuant to N.J.S.A. 18A:36, a district shall pay directly to a charter school for each student enrolled in the charter school who resides in the district an amount equal to 90 percent of the sum of the budget year equalization aid per pupil, the security categorical aid attributable to each student, and a percentage of special education categorical aid equal to the percentage of the district's special education students enrolled in the charter school. The district paid $2,118,057 for approximately 160 students enrolled in a new charter school, which opened in September 2017.

Observation

Significant Loans Required to Balance Budget Deficits

From fiscal years 2015 through 2021, the district received significant loans and has become reliant on the receipt of these loans to balance its budgets. During this period, the district received $137.4 million in loans and had only repaid $12.4 million. The table on the next page depicts the loans received and repayments made.

LAKEWOOD PUBLIC SCHOOL DISTRICT (continued)

Fiscal Year	Loan Amount	Paid 2016	Paid 2017	Paid 2018	Paid 2019	Paid 2020	Paid 2021	Outstanding Balance
2015	$ 4,500,000	$ 450,000	$ 450,000	-	$ 450,000	-	$ 630,000	$ 2,520,000
2017	5,640,183	-	564,018	-	564,018	-	752,025	3,760,122
2018	8,522,678	-	-	-	852,268	-	958,801	6,711,609
2019	28,182,090	-	-	-	-	-	3,131,343	25,050,747
2020	36,033,862	-	-	-	-	-	3,603,386	32,430,476
2021	54,541,711	-	-	-	-	-	-	54,541,711
Total	**$ 137,420,524**	**$ 450,000**	**$ 1,014,018**	**$ -**	**$ 1,866,286**	**$ -**	**$ 9,075,555**	**$ 125,014,665**

**The district did not take a loan in 2016*.

The terms of repayment for each loan is ten years, repaid through automatic reductions in state aid provided in subsequent years. From fiscal years 2022 through 2031, which is the last fiscal year of repayment for the loan received in fiscal year 2021, the district anticipates repayments of $125.0 million, or an average of $12.5 million each fiscal year, assuming no additional loans are taken.

LYNDHURST SCHOOL DISTRICT

General Fund Budgetary Deficit

The district failed to ensure spending within budgetary limits as required by N.J.A.C. 6A:23A-16.10.

N.J.A.C. 6A:23A-16.10(a)1 prohibits a district board of education from approving an encumbrance or expenditure (liability or payment) that, when added to the total of existing encumbrances and expenditures, exceeds the amount appropriated by a district's board of education in the applicable line item account established pursuant to the minimum chart of accounts. In fiscal years 2017 and 2018, the Lyndhurst School District (district) reported deficits and multiple over-expended budget line accounts.

To assess the financial position of the district and to identify the causes of the fiscal years 2017 and 2018 deficits, we obtained the district's financial reports for fiscal years 2013 through 2019, as well as downloads of general fund financial transactions from the district's accounting system, Systems 3000, and performed various cash, revenue, and expenditure trend analyses. A review of these reports and system data for prior years indicated a negative change in fund balance for every fiscal year from 2013 through 2018. As a result, the general fund balance decreased from a $633,610 surplus to a deficit of $4,470,851, as shown in the following table:

General Fund	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	
Beginning Fund Balance	$970,804	$633,610	$492,573	$416,537	$97,745	($2,731,365)	($3,819,394)	
Revenues	$38,068,961	$38,404,912	$39,576,863	$41,513,605	$43,624,795	$45,310,245	$52,382,772	*
Expenditures	$38,121,155	$38,273,949	$39,340,399	$41,487,397	$44,517,427	$45,894,568	$46,699,564	
Other Financing Sources/(Uses)	($285,000)	($272,000)	($312,500)	($345,000)	($320,500)	($503,706)	($457,950)	
Net Change in Fund Balance	($337,194)	($141,037)	($76,036)	($318,792)	($1,213,132)	($1,088,029)	$5,225,258	
Ending Fund Balance	$633,610	$492,573	$416,537	$97,745	($1,115,387)	($3,819,394)	$1,405,864	
Legally Restricted-Disallowed Grant Cost						($301,224)	($301,224)	**
Year-End Encumbrances						($350,233)	($455,425)	
Unassigned Fund Balance (Deficit)	$633,610	$492,573	$416,537	$97,745	($1,115,387)	($4,470,851)	$649,215	

*FY 2019 includes advance state aid of $4.8 million
**Fund balance restricted for unrecorded liabilities

LYNDHURST SCHOOL DISTRICT (continued)

Fiscal Year 2017 Deficit

The district reported a fiscal year 2017 general fund budgetary fund balance deficit of $1,115,000 and 39 over-expended budget line accounts, such as health benefits, tuition, salaries, and transportation, in its audited financial report.

The fiscal year 2017 ending general fund balance required a $1,616,000 adjustment for the unrecorded costs related to salaries, health benefits, transportation, tuition, and other services. This adjustment was made by public accountants hired by the district to audit the fiscal year 2018 financial statements. The adjustment is summarized in the following table:

Unrecorded Liabilities	Amount
Retroactive salary increases	$ 479,000
Attendance bonuses	46,000
Speech, OT, PT and related services	38,000
Health benefits	907,000
Contracted transportation services	123,000
Tuition	23,000
Total Adjustment	**$ 1,616,000**

Health Benefits Costs

The district budgeted $4,282,000 in fiscal year 2017 for health benefits expenses, 1.6 percent less than the actual health benefits expenses in fiscal year 2016. Fiscal year 2017 health benefits costs increased 21 percent primarily because of a $1,150,000 increase in health benefits claims, less employees' contributions. The district has been self-insured for health benefits since February 2015, making it responsible for claims and administrative costs associated with running the program. This contributes to cost volatility driven by participants' usage. After the $907,000 adjustment, as shown in the previous table, the actual fiscal year 2017 end-of-year deficit in the health benefits account was $1,065,000.

Tuition Costs

The district's budgeted fiscal year 2017 tuition costs for students attending out-of-district schools was $2,638,000, an increase of $383,000, or 17 percent compared to its reported fiscal year 2016 tuition costs. The budgeted increase was due to an anticipated increase in tuition rates. Reported fiscal year 2017 tuition expenditures were $1 million more than the reported tuition costs in fiscal year 2016. The fiscal year 2017 expenditures included $650,000 in payments associated with unrecorded fiscal year 2016 tuition. After the $23,000 adjustment, as shown in the previous table, the end-of-year deficit in the tuition accounts was $853,000.

LYNDHURST SCHOOL DISTRICT (continued)

Salary Costs

The district budgeted $23,492,000 in fiscal year 2017 for salary costs, a 3.5 percent increase over actual fiscal year 2016 salary expenses. After adjustments were made for fiscal year 2017 retroactive salary increases totaling $479,000 and fiscal year 2017 attendance bonuses totaling $46,000 paid in fiscal year 2018, as shown in the previous table, actual fiscal year 2017 salary costs amounted to $23,882,000, a 5.2 percent increase. At the time of the budget preparation, the district was in the process of negotiating the employee contract for fiscal years 2017 through 2019, which was ultimately approved in August 2017. Retroactive salary increases for fiscal year 2017 were paid in December 2017 using fiscal year 2018 appropriations. The district had budgeted $524,000 for salary increases in fiscal year 2017; however, the funds were exhausted at the end of the fiscal year for base salaries and no encumbrances were made for the anticipated salary increases. The expenses for retroactive salary increases and attendance bonuses were later reclassified to the proper fiscal year.

Transportation Costs

The district budgeted $753,000 for contracted transportation costs in fiscal year 2017, a 40 percent increase over the transportation costs reported in its fiscal year 2016 financial report. After the $123,000 unrecorded liability was adjusted, as shown in the previous table, fiscal year 2017 transportation costs were $1,019,000, an increase of $481,000 (89 percent) over fiscal year 2016. However, this included $236,000 in payments for transportation services rendered to the district during fiscal year 2016 and not included in the fiscal year 2017 budget. The end-of-year deficit in the contractual transportation accounts was $383,000.

Impact on Fiscal Year 2016 General Fund Presentation

As previously described in the *Tuition Costs* and the *Transportation Costs* sections of this report, the district paid $650,000 for fiscal year 2016 tuition expenses and $236,000 during fiscal year 2017 for fiscal year 2016 transportation expenses. Had these costs been properly reported in the 2016 financial report, the district would have recognized a $789,000 deficit a year earlier in fiscal year 2016.

Fiscal Year 2018 Deficit

The district ended fiscal year 2018 with a general fund unassigned budgetary fund balance deficit of $4,471,000 and 25 over-expended budget line accounts. The most significant deficit was reported in the health benefits account at $1,073,000, which was the result of the district budgeting fiscal year 2018 health benefits costs based on the underreported fiscal year 2017 expenses. Other factors that contributed to the fiscal year 2018 general fund unassigned budgetary fund balance deficit included the non-budgeted transfer of $164,000 to the preschool program fund and under-budgeted additional transfer of $88,000 to the food service fund to cover deficits in both funds (it

LYNDHURST SCHOOL DISTRICT (continued)

has been the district's practice to supplement its food service program with the general fund appropriations).

In addition, the district over-budgeted revenues reported as "Tuition from Individuals" by $192,000. The majority of the over-budgeted revenue was from preschool tuition that should have been included in the enterprise (preschool) fund budget, not the general fund budget. The district also had to restrict the general fund balance by $301,000 for fiscal year 2015 grant costs deemed disallowable following a New Jersey Department of Education audit. The district subsequently filed an appeal, but it had not received a response to the appeal as of the end of fiscal year 2018.

In addition, by the end of fiscal year 2017, the district had accumulated $1,557,000 in unprocessed invoices for payroll and goods and services procured during fiscal year 2017, including $830,000 for unpaid fiscal year 2017 tuition expenses and $239,000 for transportation services rendered between February 2017 and June 2017. These expenditures were properly accounted for in the fiscal year 2017 financial report through end-of-year audit adjustments. However, the district also recorded these as fiscal year 2018 expenditures with $1,334,000 posted as Health Benefits expenses. Had these transactions not been properly reclassified, the individual appropriation accounts may have been incorrect and the fiscal year 2018 deficit would have appeared even greater.

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*

Finding 2021-001 - Unemployment Compensation Fund (UI Fund)

Financial Statement Reporting

The Department of Labor and Workforce Development (DOLWD) is responsible for preparing complete and accurate financial statements for presentation to the Department of the Treasury's Office of Management and Budget – Financial Reporting (OMBFR). The OMBFR is responsible for including those financial statements in the state's Annual Comprehensive Financial Report (ACFR).

We presented two audit adjustments totaling $560,442,128 to the UI Fund's Accounts Receivable, Benefits Payable, Benefits Expense, and Revenue accounts because of omissions and calculation errors regarding estimates made by the DOLWD. The first audit adjustment was to record an omission of a year-end accrual for Benefits Payable related to the Federal Pandemic Unemployment Compensation (FPUC) program totaling $348,148,800 the DOLWD failed to record. Since FPUC payments were federally reimbursed, thereby requiring an offsetting receivable, this error had no effect on the total Net Position. The second audit adjustment occurred because the DOLWD changed their methodology, which contained an error in the calculation of uncollectible accounts receivable related to employer and employee contributions. This audit adjustment decreased the total Net Position by $212,293,328.

Additionally, our audit found the DOLWD has not reviewed or adjusted the rate it uses for their Benefits Overpaid Receivable collections since 2014. The DOLWD has experienced a significant increase in suspicious claims paid from $32,933,333 in fiscal year 2020 to $232,670,866 in fiscal year 2021 as a result of increased claims activity during the COVID-19 pandemic. The DOLWD deems the majority of the suspicious claims paid to be improper or fraudulent. Even though fraudulent claims, such as identity theft cases, are deemed for the most part uncollectable, the DOLWD has not adjusted the historic 18 percent collection rate. Failure to analyze the effect of current events on the receivables could result in an overstatement of the total Net Position.

Legislation has established the rate employers will contribute to the Unemployment Compensation Fund through fiscal year 2024. Absent any future legislation, the contribution rates to be established in the future will be based on a formula to which the UI Fund's Net Position is a component. Therefore, errors affecting the total Net Position could affect the contribution rates.

OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2022

	TYPES OF FINDINGS			
REPORT	**COMPLIANCE**	**CONTROLS**	**ECONOMY/ EFFICIENCY**	**NONE**
Department of Corrections				
Edna Mahan Correctional Facility for Women	X	X		
Department of Human Services				
Catastrophic Illness in Children Relief Fund	X	X	X	
Section 8 Housing Program				
Financial Data Schedules	Opinion Report			X
Department of Labor and Workforce Development				
Unemployment Systems - Information Technology Operations	X	X		
Department of Law and Public Safety				
Division of Civil Rights, Division of Highway Traffic Safety, Division of Alcoholic Beverage Control, and New Jersey Racing Commission	X	X		
Division of Gaming Enforcement	X	X	X	
Department of the Treasury				
Office of Management and Budget				
New Jersey Comprehensive Financial System Application	X	X		
Department of Transportation				
Bureau of Transportation Data and Support				
Crash Records Unit	X	X	X	
Lakewood Public School District	X	X	X	
Lyndhurst School District	X		X	
State of New Jersey				
Annual Comprehensive Financial Report				
For the Fiscal Year Ended June 30, 2021	Opinion Report			X
Fund Balance Report as of June 30, 2021	Special Report			
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*		X		
Schedule of Benefit Claim Payments and Expenses				
Local Education Retired - For the Fiscal Year Ended June 30, 2021	Opinion Report			X
Schedule of Benefit Claim Payments and Expenses				
State Retired - For the Fiscal Year Ended June 30, 2021	Opinion Report			X
Stockton University	X	X		

*The Annual Comprehensive Financial Report is issued by the New Jersey Department of the Treasury, Office of Management and Budget. It can be found at https://www.nj.gov/treasury/omb/publications/22fr/NJFRFY2022Complete.pdf.