

NEW JERSEY LEGISLATURE
OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR

2024
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 2024. In conformance with our responsibilities to perform financial, performance, and compliance audits, all state agencies are audited periodically using a risk-based approach. During 2024, we issued 20 reports and identified \$161.1 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
May 20, 2025

TABLE OF CONTENTS

Introduction

Background.....	1
Mission Statement.....	2
Vision Statement.....	2
Accomplishments.....	2
Professional Standards	3
Schedule of Cost Savings, Improper Payments, and Revenue Enhancements	4
National State Auditors Association Peer Review Letter	5

Audit Reports

Types of Audits Performed.....	6
Distribution of Audit Hours	8
How and to Whom Audit Reports Are Issued	9

Organization

Human Resources	10
Audit Staff.....	10
Quality Assurance.....	11
Administrative Staff.....	11
Staff Roster	12

Accomplishments and Results

Summary	13
<i>Cost Savings/Improper Payments/Revenue Enhancements</i>	
Department of Community Affairs	
Division of Local Government Services.....	15
Department of Human Services	
Division of Developmental Disabilities	
Green Brook Regional Center.....	19
Department of Military and Veterans' Affairs	
New Jersey Veterans Memorial Home at Menlo Park.....	21
Lakewood Public School District	26
New Jersey Economic Development Authority	
Film and Digital Media Tax Credit Program.....	30
Plainfield Public School District.....	33
Salem City School District.....	40
South Jersey Transportation Authority	
Selected Programs.....	50
<i>Other Findings and Observations of Interest</i>	
Department of Health	
Division of Certificate of Need and Licensing	
Certificate of Need Program	53
Department of Human Services	
Division of Developmental Disabilities	
Green Brook Regional Center.....	54

TABLE OF CONTENTS

Department of Human Services	
Office of Program Integrity and Accountability	
Office of Performance Management, Critical Incident	
Management Unit.....	57
Office of Information Technology	
Electronic Cost Accounting and Timesheet System (eCATS)	60
Department of the Treasury	
Division of Taxation	
Remote Sales Tax	62
<i>Schedule of Reports Issued During Calendar Year 2024</i>	63

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 2024, we identified \$161.1 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 period July 1, 2022 through December 31, 2022 disclosed that 84.7 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 2022 recommendations rose to 92.1 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 208 funds and component units having a total asset value of \$308.1 billion at June 30, 2024.

INTRODUCTION

PROFESSIONAL STANDARDS

The Office of the State Auditor's audits are performed in accordance with generally accepted government auditing standards. These standards require that our operations be reviewed every three years. In 2023, 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 2024
(Expressed in Thousands)**

<u>REPORT</u>	<u>COST SAVINGS, IMPROPER PAYMENTS, AND/OR REVENUE ENHANCEMENTS</u>
Department of Community Affairs	
Division of Local Government Services	\$ 36,275.2
Department of Human Services	
Division of Developmental Disabilities	
Green Brook Regional Center	\$ 133.2
Department of Military and Veterans' Affairs	
New Jersey Veterans Memorial Home at Menlo Park	\$ 2,930.8
Lakewood Public School District	\$ 69,172.8
New Jersey Economic Development Authority	
Film and Digital Media Tax Credit Program	\$ 729.4
Plainfield Public School District	\$ 12,798.2
Salem City School District	\$ 6,133.2
South Jersey Transportation Authority	
Selected Programs	<u>\$ 32,887.0</u>
<i>Total Cost Savings, Improper Payments, and Revenue Enhancements</i>	<u><u>\$ 161,059.8</u></u>



PEER REVIEW REPORT
06/23/2023

The Honorable David J. Kaschak
New Jersey Office of the State Auditor
125 South Warren St.
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, 2022 through March 31, 2023. 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 New Jersey Office of the State Auditor in effect for the period April 1, 2022 through March 31, 2023 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*.**

Pam Bormann, CPA, CGFM
Concurring Reviewer
External Peer Review Team
National State Auditors Association

Jennifer Paperman, CPA, CIA
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, 2023 in accordance with statutory requirements. Four other financial audits were issued in calendar year 2024.

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 nine performance audits in calendar year 2024. These audits encompassed \$2.3 billion and \$498.2 million 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 2024, we reported on the Office of Information Technology, Electronic Cost Accounting and Timesheet System (eCATS).

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.

AUDIT REPORTS

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 three school districts in calendar year 2024.

Legislative Requests

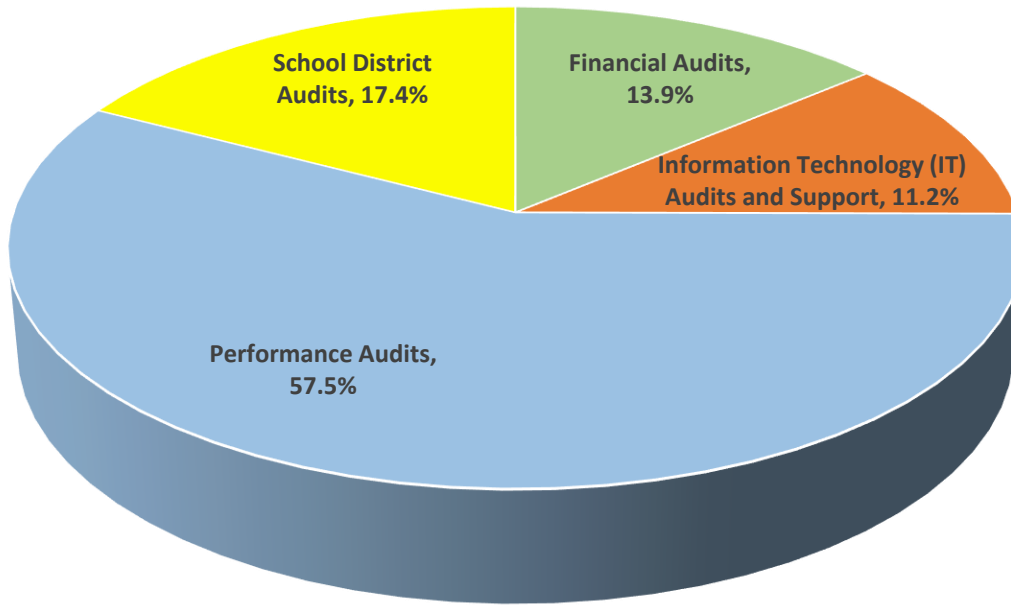
From time to time the Legislative Services Commission and Legislative leadership request the State Auditor to conduct special projects of the fiscal practices and procedures of the state and state-supported agencies, and to report findings to the Commission.

AUDIT REPORTS

DISTRIBUTION OF AUDIT HOURS

The distribution of audit hours used in performing audits during calendar year 2024 is depicted on the following chart.

Distribution of Audit Hours



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, 2024, there were 51 staff members, 58 percent of the 88 filled professional positions, who possessed professional certifications or advanced degrees. Additionally, 46 percent of the 88 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 AGA, 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.

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.

ORGANIZATION

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, 2024**

STATE AUDITOR

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

ASSISTANT STATE AUDITOR

Brian M. Klingele, MS, CPA, CIA, CGAP

ASSISTANT STATE AUDITOR

Thomas Troutman, CPA, CIA, CGFM

Jill Bodnar, Secretary

AUDIT MANAGERS

Daniel Altobelli, CPA, CISA, CEH
John J. Coyle, CPA
Robert F. Gatti, CPA

Anna Lorenc
Linda Maher, CGFM
Kristen Menegus, CGAP

Robert Rizzo, CPA
Christopher D. Soleau, CGAP
Michael A. Tantum, MBA

PRINCIPAL AUDITORS

Derek Bachmann
Kenyona Booker, CGAP
Stephanie A. Collins, MBA
Jennifer Dougherty, CISA
Sean F. Duffy
Meghan Ellis, CICA
Lorien Flannery, MAccy
Eric Fonseca
Rene Gervasoni, CICA
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
Joseph Pica
John R. Pullen, CICA

Michelle Quinones, CICA
Stephanie Rybak, MAccy
Nicole Sansone, CFE, CGAP
Brian K. Sherfese
Hiral Singh, MBA, CPA
Jesskim So
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
Ansley Cubero
Devan Davies, CFE
Evan Delgado
Michael Dintrone
Helene Evich, CPA
Tanja Fessler, MBA
Jacob Gatti
Andy Gramajo-Renoj
Rachel A. Haines

Austin Hammond
Kenneth P. Henderson, CPA
Zachary Hobson
Shane Hoffman
Kevin Holt, MS, CGFM
Elizabeth Hudock
Amanda Ireland, CICA
Kristopher J. Kirkland, MAccy
Douglass W. MacArthur
Bennie Macklin
Jesenia Maldonado
Julia Q. Martine, MS
Christopher Mason
Isabella McNulty
Daniel Mostrangeli, MAccy
John O'Meara, CPA, CFE

Dean Powers
Kelsey Preston
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Edward Shields, CPA, CGFM
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Simone Thomas, MBA
Shrushti Trivedi, MAccy, MC, CICA
John Urciuoli
Lesia Vasylyv, MBA
Olha Vorobchak

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
CRMA – Certification in Risk Management Assurance
MA – Master of Arts
MAccy – Master of Accountancy
MBA – Master of Business Administration
MC – Master of Cybersecurity
MS – Master of Science

ACCOMPLISHMENTS AND RESULTS

SUMMARY

This section highlights eight audits issued during the past year that contained cost savings, improper payments, and revenue enhancements totaling \$161.1 million. Information on these reports is presented on pages 14 through 51. Highlights of five reports containing other significant findings and observations are presented on pages 53 through 62. 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 2024 are identified on a schedule on page 63 and are available for review on our website.

**ACCOMPLISHMENTS AND RESULTS
COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE
ENHANCEMENTS**

ACCOMPLISHMENTS AND RESULTS
COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

DEPARTMENT OF COMMUNITY AFFAIRS
DIVISION OF LOCAL GOVERNMENT SERVICES

Transitional Aid

Internal controls over Transitional Aid allocations should be strengthened.

Transitional Aid (TA) is discretionary aid available for municipalities with severe structural budget deficits that anticipate difficulties making payments toward nondiscretionary or critical obligations, including debt service, contractual obligations, and payroll. According to the Division of Local Government Services (division) local finance notices and the state's appropriation handbook, TA is designed to provide short-term financial assistance to help a municipality in serious financial distress meet immediate budgetary needs and regain financial stability. It is not intended to provide long-term budgetary supplementation.

A municipality must submit an application annually. Once TA has been awarded, municipalities are required to complete a memorandum of understanding agreeing to broad state oversight and committing to complying with specific items, including enacting or strengthening pay-to-play ordinances, performing reasonable revaluations or reassessments of property, and submitting to additional fiscal control measures directed by the division. State oversight is accomplished by assigning a division employee onsite at the municipality receiving TA to monitor financial decisions. Additionally, the local finance notices state an applicant seeking level or increased funding should submit a letter from the mayor addressing why the municipality failed to reduce its need for funding. As an incentive to improve fiscal management practices, the division would consider reducing oversight provisions for municipalities that decrease reliance on TA by at least 15 percent of the prior year award amount.

We judgmentally selected 7 of the 10 municipalities that received TA in 2021 and reviewed 17 applications completed by those municipalities between 2016 and 2021. Our testing noted the following:

- For fiscal year 2020, one municipality received \$8,250,000 in TA without a signed application and memorandum of understanding. Our review found the mayor had requested an extension to complete the application and subsequently submitted a letter stating the municipality no longer desired to operate under the memorandum of understanding (state supervision). Based on this decision, the city was aware that it would lose TA funding; however, the disbursed funds were not returned by the municipality.
- Four municipalities failed to submit six letters from the mayor explaining why the level of TA funding requested was not reduced from the previous year.

ACCOMPLISHMENTS AND RESULTS

COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

DEPARTMENT OF COMMUNITY AFFAIRS

DIVISION OF LOCAL GOVERNMENT SERVICES (continued)

Additionally, during reporting years 2020 through 2022, ten municipalities received \$106.5 million in supplemental (one-time) TA payments for specific projects within the municipality. As part of the award process, the division generates an addendum to the TA application outlining the requirements the municipality must follow and the details of the projects the aid will fund. This addendum is signed by both the division and municipality. The division could not provide a methodology for how funds for these supplemental awards were allocated or how projects were selected. Monitoring of these funds is performed by the state monitor assigned to the applicable municipality.

Coronavirus Relief Fund

Internal controls and monitoring over pandemic-related expenses should be strengthened.

The division was deemed the lead agency for the distribution of the Local Government Emergency Fund (LGEF), provided through an allocation of New Jersey's share of the CARES Act Coronavirus Relief Fund (CRF). The counties and municipalities excluded from the federal government's direct CRF allocation plan, as well as those counties and municipalities mostly impacted in comparison to their available resources, were eligible to receive funding. Distribution of funds was determined by the division's allocation formula, which included local COVID infection rates, population, and fiscal stress. The total allocation for these counties and municipalities was approximately \$60 million. Because the state was the primary recipient of CRF funds and is responsible for monitoring the spending by subrecipients, any costs deemed questionable by the U.S. Department of the Treasury would be recouped from the state.

Eligible entities could seek reimbursement for up to 100 percent of eligible costs incurred, not exceeding their maximum allocation. Confirmed unrequested, unapproved, or released amounts within any individual local unit's allocation may be redistributed to other grant program participants in accordance with the allocation formula. Upon completion of application review and approval, the division entered into an agreement with applicants approved for funding and disbursed the funds. The division required the fund recipients to submit documentation of their eligible costs.

Our audit tested applications submitted by all 12 counties and 12 of the 275 municipalities that did not receive direct funding from the federal government to determine whether grants were spent in accordance with the guidelines set by the division and the federal government. We tested grant payments totaling \$30,505,549 and noted four counties submitted questionable expenses totaling \$1,756,992. Examples of the questionable expenses included: vehicle purchases (Chevrolet Tahoe, Chevrolet Equinox, and Ford F-150), a John Deere Gator purchase, prisoner transportation, and the purchase of miscellaneous items, such as breakfast boxes, aluminum trays, and hair covers. These expenses appear to be inconsistent with the program guidelines issued by the U.S. Department of the Treasury, and the state may be subject to recoupment by the federal

ACCOMPLISHMENTS AND RESULTS
COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

DEPARTMENT OF COMMUNITY AFFAIRS
DIVISION OF LOCAL GOVERNMENT SERVICES (continued)

government. Additionally, we found the department did not have supporting documents for expenses of one municipality totaling \$18,174.

Legislative Aid

Required reports are not being completed to track spending and progress of Legislative Aid projects.

State Aid appropriations for various projects within the state are included in the accounts of the division; these funds are referred to as “Legislative Aid”. The legislature decides on the projects, and the funds flow through the division. This process started in fiscal year 2021, and allocations vary each year. Examples of projects from fiscal year 2022 included: \$15 million appropriated for the demolition of vacant property in a major city, \$1.8 million for a road improvement program, and \$1 million expansion of a community arts center. Total aid for fiscal years 2021, 2022, and 2023 is summarized in the chart below:

Legislative Aid Totals as of 9/13/2023				
Fiscal Year	# of Grants	Amount Appropriated	Amount Disbursed	Percentage
2021	9	\$ 18,050,000	\$ 18,050,000	100%
2022	17	\$ 22,758,000	\$ 17,424,000	77%
2023*	44	\$ 159,303,000	\$ 42,687,500	27%

*Fiscal year 2023 was included for informational purposes only.

The division enters into an agreement with each recipient. Pursuant to the agreement, the recipient must submit to the division supporting documentation for all grant expenditures. The agreement also requires performance reports be submitted indicating the progress of the project, which must be completed at agreed-upon frequencies, such as monthly, quarterly, or annually. Agreements for all Legislative Aid grants require quarterly progress reports. Additionally, a final report should be submitted to the division no later than 60 days after the completion of the grant or the termination of the agreement.

According to the grant agreements for fiscal year 2021, the end of the award period was November 30, 2022, and liquidation of obligations was to be made by February 28, 2023. For fiscal year 2022 grants, the end of the award period was May 31, 2023, and liquidation of obligations was to be made by August 29, 2023, except for one grant with an award period that ended on July 31, 2022.

We reviewed all nine of the fiscal year 2021 grants and found none of them had a final report. Additionally, only two of the nine grants had all of the required quarterly progress reports on file; four of the grants did not have all of the required quarterly progress reports completed, and three did not complete any.

ACCOMPLISHMENTS AND RESULTS
COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

DEPARTMENT OF COMMUNITY AFFAIRS
DIVISION OF LOCAL GOVERNMENT SERVICES (continued)

The largest Legislative Aid award was to a local authority for the demolition of vacant property in a large city, with awards of \$15 million for each fiscal year 2021 and 2022 and \$35 million for fiscal year 2023. As of April 12, 2023, \$15 million was disbursed for fiscal year 2021, \$11.25 million was disbursed for fiscal year 2022, and no funds had been disbursed as of October 30, 2023, for fiscal year 2023. For fiscal year 2021, the authority, which is responsible for the coordination of the city demolition project, requested an extension for the project until December 31, 2022.

We found only four quarterly progress reports were completed for fiscal years 2021 and 2022. However, these reports were neither signed nor on the proper letterhead and did not provide any details of the project's progress. According to the authority's meeting minutes from April 8, 2021, a contract totaling \$6.5 million was awarded to a contractor for the demolition of abandoned and vacant properties. We requested from the authority a list of properties demolished or scheduled to be demolished, expenditure support for each demolition, and the RFP used to award the demolition contract. However, we never received any of the requested documentation.

ACCOMPLISHMENTS AND RESULTS

COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

DEPARTMENT OF HUMAN SERVICES DIVISION OF DEVELOPMENTAL DISABILITIES GREEN BROOK REGIONAL CENTER

Timekeeping and Employee Leave Records

The Green Brook Regional Center (GBRC or center) does not use an electronic payroll system for all employees, which contributes to errors.

Payroll expenditures totaled \$20.7 million, \$20.2 million, and \$11.7 million for calendar years 2021 through 2023 (as of August 8, 2023), respectively. The GBRC employs approximately 331 staff members. Recording of time is manual for 253 employees, and the remaining 78 employees use the electronic Cost Accounting and Timesheet System (eCATS). GBRC policy requires all hours worked to be authorized and properly credited to allow for appropriate compensation. Our review of payroll expenditures and timekeeping process noted the following:

- Nine employee timesheets (nine percent) were not accurately recorded in the timekeeping records, resulting in 32 compensatory or vacation hours not recorded against the employees' leave balances. We judgmentally selected a total of 100 manual timesheets from two pay periods based on salary and department. The timesheets supported payroll payments totaling \$178,178 from the calendar years 2021 and 2022 population totaling \$24.6 million.
- Twenty-eight overtime payments (five percent) to eight employees did not agree with timekeeping records, resulting in overpayments of \$2,588 and underpayments of \$2,227. We tested 527 payments totaling \$382,409 to the 14 employees who earned the most overtime during calendar years 2021 and 2022. During the same period, 6,597 overtime payments totaling \$3.0 million were made to 289 employees.
- One incorrect payment (7 percent) for unused sick leave upon employee separation resulted in a \$450 overpayment. We tested the entire population of 15 unused sick leave payouts for calendar years 2022 and 2023 (as of February 15, 2023) totaling \$75,989.

Implementing eCATS for all GBRC employees could increase efficiency in the payroll department and reduce the risk of timekeeping and payroll calculation errors. The system has been adopted by other state agencies providing 24-hour care and can accommodate the timekeeping needs of such facilities.

ACCOMPLISHMENTS AND RESULTS
COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
GREEN BROOK REGIONAL CENTER (continued)

Procurement Process

The center did not always comply with applicable purchasing policies and regulations.

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 expenditures totaled \$5.04 million, \$5.74 million, and \$6.15 million for fiscal years 2021 through 2023, respectively. We judgmentally selected a sample of 42 expenditure transactions totaling \$274,927 for testing based on dollar amounts and vendors unique to the facility. Our testing identified the following internal control weaknesses over procurement:

- Department of the Treasury circulars define a Delegated Purchasing Authority (DPA) transactions 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 19 applicable transactions tested, totaling \$240,820, we found 5 transactions (26 percent) totaling \$13,153 lacked documentation of a competitive procurement process in accordance with DPA procedures.
- Department of the Treasury circulars outline procedures for New Jersey Purchasing Card (P-Card) Program transactions. The P-Card program was established to provide governmental agencies with a convenient method to purchase goods and services. Of the 15 applicable transactions tested, totaling \$11,919, we found 2 transactions (13 percent) totaling \$4,231 lacked price quotes in accordance with P-Card procedures.
- A confirming order is the ordering of goods or services before an authorized purchase order is approved, thereby bypassing the procurement process. Of the 42 transactions tested, we found 17 transactions (40 percent) totaling \$114,955 were confirming orders.

ACCOMPLISHMENTS AND RESULTS
COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

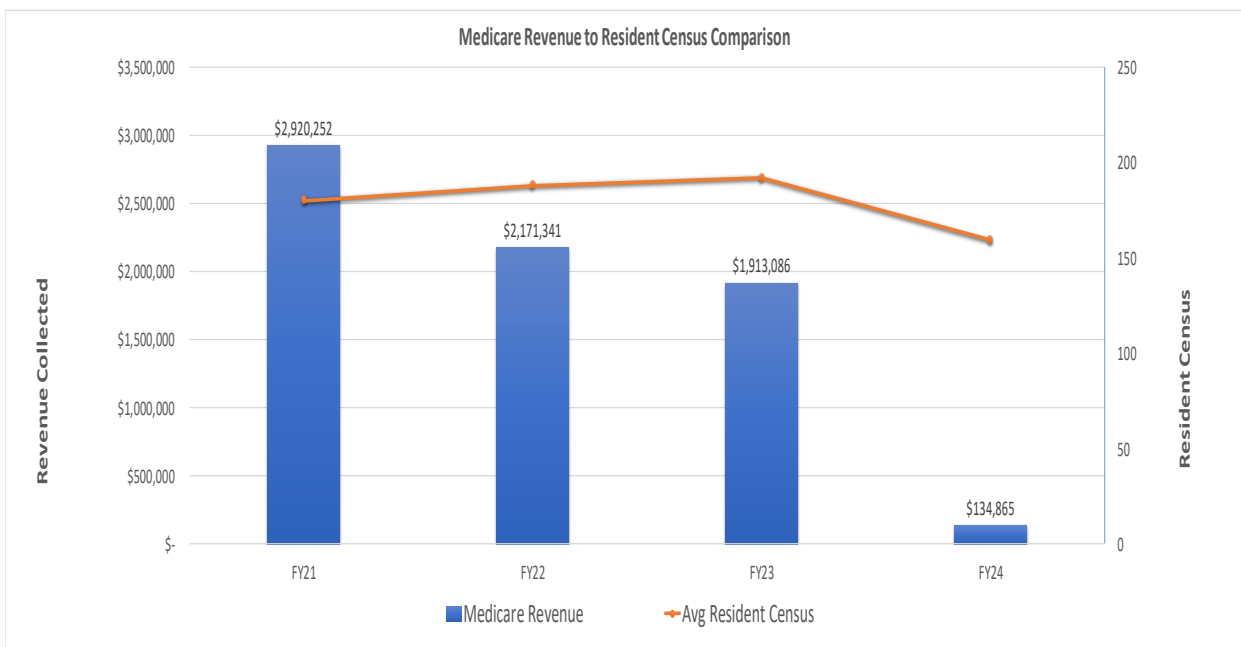
DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS
NEW JERSEY VETERANS MEMORIAL HOME AT MENLO PARK

Revenue

Management at the New Jersey Veterans Memorial Home at Menlo Park (home) did not maximize Medicare Part A and Part B revenue and missed out on \$114,000 of additional revenue, as well as potentially another \$1.7 million if errors are not rectified by the home.

We found deficiencies in both the management and accountability of Medicare Part A and Part B revenue (Medicare revenue) claims submissions as substantiated by a drastic decrease in revenue. In fiscal year 2021, the home collected Medicare revenue of approximately \$2.9 million with an average resident count of 180. In fiscal year 2022, the home collected Medicare revenue of approximately \$2.2 million with an average resident count of 188. In fiscal year 2023, the home collected Medicare revenue of approximately \$1.9 million with an average resident count of 192.

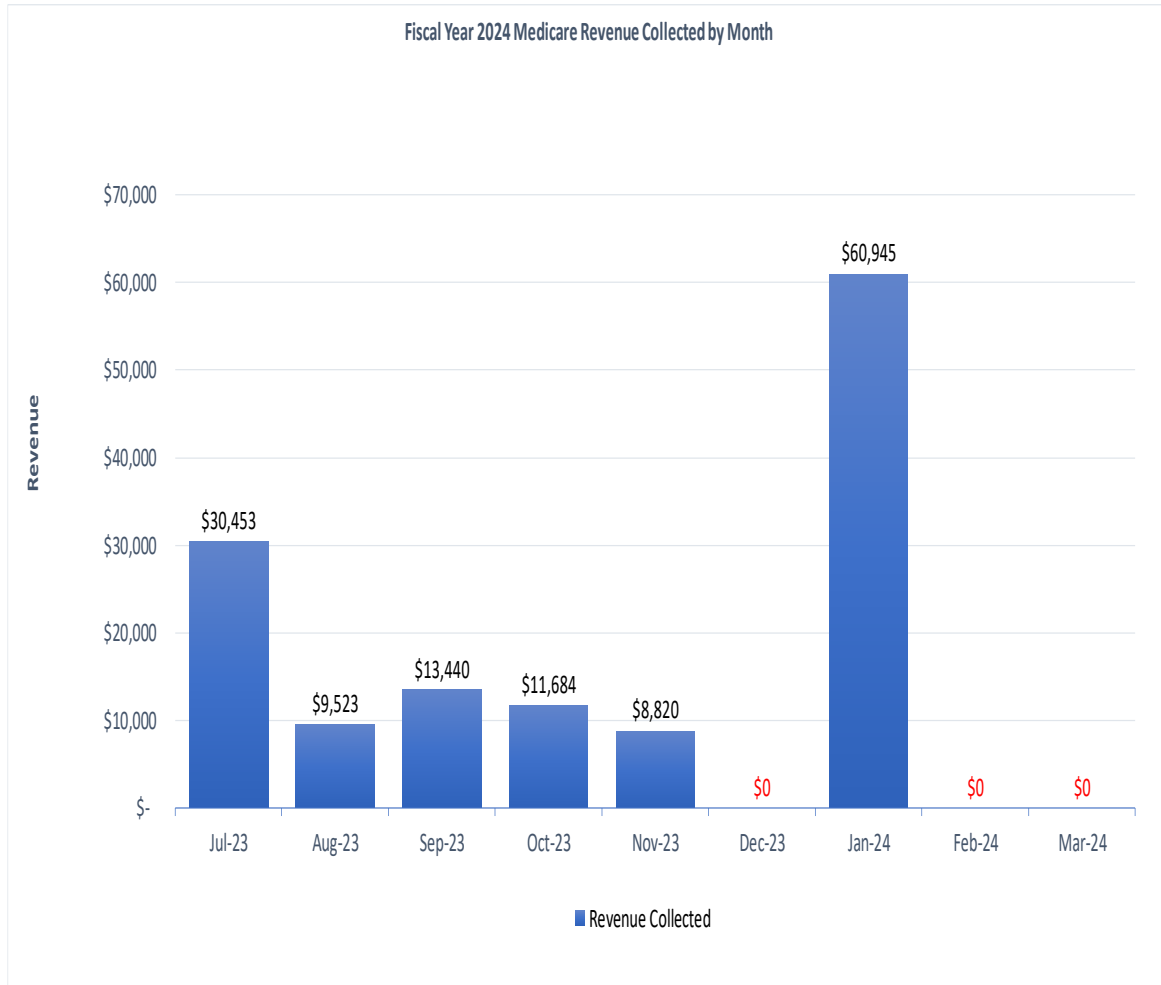
As of March 31, 2024, the home had collected a *total* of only \$134,865 in Medicare revenue with an average resident count of 159 during fiscal year 2024. The following chart shows the decline in Medicare revenue by fiscal year along with the average census counts:



The chart on the following page shows Medicare revenue collected per month during fiscal year 2024 through March 31st:

ACCOMPLISHMENTS AND RESULTS
COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS
NEW JERSEY VETERANS MEMORIAL HOME AT MENLO PARK (continued)



The home had comparable or better revenue collections than the other two veteran homes for fiscal years 2021 through 2023. However, the home had collected significantly less Medicare revenue than the other two veteran homes in fiscal year 2024 through March 31st, as shown in the following chart:

Facility	Medicare Revenue	Avg Resident Census	Avg \$ Per Resident
Menlo	\$134,865	159	\$848
Paramus	\$813,799	198	\$4,110
Vineland	\$1,452,922	215	\$6,758

ACCOMPLISHMENTS AND RESULTS COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS NEW JERSEY VETERANS MEMORIAL HOME AT MENLO PARK (continued)

In March 2023, the Department of Military and Veterans' Affairs (department) transferred its Medicare billing functions to a contracted third-party vendor. The department's contract with the Medicare billing vendor requires the vendor to maintain books and records. Furthermore, federal regulation 42 CFR 425.314 requires providers to maintain records, documents, and other evidence sufficient to enable an audit, evaluation, investigation, and inspection of the quality of services performed. Additionally, federal regulations require Medicare claims to be filed no later than 12 months after the date services were provided. Failure to submit Medicare claims within the 12-month period would result in a loss of Medicare revenue. However, the home and the vendor could not provide us with complete accounting records and logs; therefore, we were unable to determine whether all Medicare claims were submitted within the 12-month deadline.

According to Medicare reports reviewed during April 2024, the home submitted 735 Medicare revenue claims amounting to approximately \$1.855 million from July 2023 to December 2023. Upon further review, we discovered the home lost \$114,000 in claims to be paid by Medicare because the home missed the filing submission deadlines. In addition, Medicare is withholding funds of \$621,000 in claims because the home failed to submit the required CMS-838 quarterly reports, which are used to monitor identification and recovery of credit balances owed to Medicare. All or a portion of the withheld funds will be released upon the submission of the quarterly reports. After we brought this to the home's attention, it started submitting the quarterly reports. Of the remaining claims, approximately \$1.12 million contain various errors or have been rejected by Medicare that need to be corrected by the home in order to receive payment.

Overall, there were multiple reasons for the significant decline of Medicare revenue in fiscal year 2024:

- There was a decrease in the resident census that contributed to the revenue decline.
- The combination of no written policies and procedures and a lack of cross-training of business office employees on the proper submission of Medicare claims resulted in no Medicare claims submissions after the employee(s) responsible for submitting claims left state service in December 2023.
- The home experienced turnover among key employees in its business office, especially related to billing functions for Medicare revenue.
- The home and vendor did not maintain completed and updated logs for Medicare billing claims submitted.
- The third-party vendor dedicated only one employee, who lacked experience in the home's process of Medicare claim submissions, resulting in a high error rate of claims submitted.

ACCOMPLISHMENTS AND RESULTS

COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS

NEW JERSEY VETERANS MEMORIAL HOME AT MENLO PARK (continued)

- The department and the home's management did not adequately monitor claim submissions and did not question the significant drop in Medicare revenue.

Delinquent Debt Accounts

In addition to per diem allowances from the United States Department of Veterans Affairs and Medicare claims collections, operating expenses of the home are offset through the collection of care and maintenance (C&M) from the residents. Care and maintenance amounts are based on a resident's "ability to pay" taking into consideration funds the resident derives from pensions, social security, or other spend-down assets, with a maximum monthly amount established by the department.

Generally, the family serves as the resident's representative payee, and they are responsible for remitting C&M payments to the home. The administrative code provides that delinquent C&M payment is grounds for involuntary discharge from the facility; however, in practice the home does not take such measures.

Nearly \$1 million in delinquent accounts receivable are not being pursued for collection.

Department of the Treasury Circular No. 13-11-OMB and Department of Military and Veterans' Affairs (department) Internal Policy 44-02-013 establishes that accounts remaining delinquent for 90 days must be transferred to the New Jersey Department of the Treasury, Division of Revenue and Enterprise Services (DORES) for further collection proceedings. N.J.A.C. 5A: 5-5.1 general requirements also establishes that accounts that become delinquent are referred to the Department of the Treasury for lien application proceedings. In addition, the department requires the home's management to maintain records for tracking delinquent accounts. However, the home's management failed to maintain records of member delinquent accounts. After we informed the home, it began maintaining records for delinquent member accounts.

As of May 2, 2023, there was a total of 231 delinquent member accounts amounting to approximately \$948,000 in the home's NetSolutions System. Those accounts have discharge dates as far back as June 2015. Our review of all delinquent member accounts noted the following:

- There were 196 delinquent member accounts (85 percent) totaling approximately \$778,000 that had been delinquent for more than 90 days but were never sent to the DORES for further collection. The last time a delinquent debt was transferred to the DORES was February 2021.

ACCOMPLISHMENTS AND RESULTS
COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS
NEW JERSEY VETERANS MEMORIAL HOME AT MENLO PARK (continued)

- Among the 20 highest delinquent member accounts, we found five residents (25 percent) did not have a property lien placed by the home and appeared to still own a property. The delinquent debt accounts for the five residents totaled approximately \$100,000. It is imperative for the home's management to promptly submit a lien application on these properties.

ACCOMPLISHMENTS AND RESULTS

COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

LAKESWOOD PUBLIC SCHOOL DISTRICT

Additional Loan Repayment and Withholding of State Aid

The Lakewood Public School District (district) owes \$32.6 million towards loan repayments, and its State Aid should be reduced by the same amount.

Pursuant to N.J.S.A. 18A:7F-7, public school accountants (PSA) are required to perform the annual calculation of excess surplus at June 30 for all regular and county vocational school districts. Additionally, pursuant to N.J.S.A. 18A:7A-56c, any year in which a school district's undesignated General Fund balance is greater than 1.5 percent of General Fund expenditures, the amount that exceeds 1.5 percent shall be an additional amount applied to the following year's loan repayments, and the district's State Aid shall be reduced by this additional amount in that following year. From fiscal years 2019 through 2023, the district received four loans totaling \$146.5 million. During this period, the district never applied the amounts that exceeded 1.5 percent to the following year's loan repayments, nor was its State Aid reduced by these amounts. Based on our conversations with the New Jersey Department of Education (DOE) and the district, we determined that they came to agreements whereby the district would retain the excess to reduce subsequent years' loan needs. As of fiscal year 2023, the total excess surplus was \$32,620,211.

Multiyear & Tuition Contracts

The district allowed increases in certain multiyear contracts outside of a renewal period that resulted in improper payments of \$1.1 million.

Multiyear Contracts

Pursuant to N.J.S.A. 18A:18A-42, contracts for the provision of goods or services shall be awarded for a period not to exceed 24 consecutive months. Any price change included as part of an extension shall be based upon the price of the original contract as adjusted pursuant to any previous adjustment or extension and shall not exceed the change in the index rate for the 12 months preceding the most recent quarterly calculation available at the time the contract is renewed. The index rate is the rate of annual percentage increase, rounded to the nearest half-percent, computed, and published quarterly by the United States Department of Commerce, Bureau of Economic Analysis.

We identified four multiyear contracts with contractual periods from September 1, 2020 through June 30, 2023 where two vendors requested and were paid annual price increases prior to the renewal period because management overrode internal controls, as summarized on the next page.

**ACCOMPLISHMENTS AND RESULTS
COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS**

LAKWOOD PUBLIC SCHOOL DISTRICT (continued)

Vendor	Initial Cost of Contracts	Contracts With Index Rate Increase	Unallowable Increase
A	\$ 7,367,850	\$ 8,268,124	\$ 900,274
B	2,456,200	2,664,977	208,777
Total	\$ 9,824,050	\$ 10,933,101	\$ 1,109,051

Tuition Contracts

Pursuant to N.J.A.C. 6A:23A-18.5, an approved private school for students with disabilities (APSSD) shall use the commissioner-prescribed mandated tuition contract for each student received from a sending district board of education.

During fiscal years 2019 through 2022, the district paid a total of \$158.7 million in tuition for approximately 370 students sent to APSSDs, or an average of \$39.7 million per year. For school year 2022, we tested contracts for all 230 students from a May 2022 invoice sent to an APSSD. For three contracts, there were discrepancies between the dates on the signature page and the rest of the contract that indicated the contracts were not appropriately signed.

Overtime Pay

The district paid \$1.3 million in overtime, of which nearly \$600,000 was in excess of the efficiency threshold.

Pursuant to N.J.A.C. 6A:23A-9.3, efficient administrative and non-instructional costs shall include overtime pay for any given function not exceeding 10 percent of regular wages for that function. From fiscal years 2019 through 2023, the district had 13 job functions for which overtime exceeded 10 percent of regular wages, totaling \$592,575. The table below summarizes the overtime pay in excess of the 10 percent threshold.

Job Function	Regular Wages	10% Threshold	Overtime Wages	In Excess of 10%
Transportation	\$ 707,748	\$ 70,775	\$ 208,797	\$ 138,022
Transportation Manager	580,332	58,033	166,249	108,216
Admin Secretary	1,811,453	181,145	286,267	105,122
Clerical Assistant	1,098,809	109,881	187,226	77,345
Warehouse	247,661	24,766	69,959	45,193
Other Functions	3,075,460	307,546	426,223	118,677
Total	\$ 7,521,463	\$ 752,146	\$ 1,344,721	\$ 592,575

ACCOMPLISHMENTS AND RESULTS COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

LAKEWOOD PUBLIC SCHOOL DISTRICT (continued)

Pursuant to N.J.A.C. 12:56-7.1, any individual employed in a bona fide executive, administrative, or professional role shall be exempt from overtime requirements.

- During fiscal years 2019 through 2023, the district paid \$410,816 in overtime to eight executive secretaries exempt from receiving overtime.
- In fiscal year 2020, the top earner was an executive secretary who received \$102,075. This individual worked 2,042 hours of overtime in that year, or an average of 5.6 extra hours per day.

Conflict of Interest

A part-time employee of the district is also the full-time director of a contracted vendor and received total compensation of \$1.1 million.

Pursuant to N.J.S.A. 18A:12-24, no school official shall engage in any business, transaction, or professional activity that is in substantial conflict with the proper discharge of their duties in the public interest, and no school official shall act in his official capacity in any matter where he has a direct or indirect financial involvement.

Furthermore, the district's Staff Policy Handbook prohibits an employee of the district from engaging or having a financial interest, directly or indirectly, in any activity that conflicts with their duties and responsibilities in the school district. For contracts with the board, an employee shall not obtain a direct benefit from a contract they are involved in making or administering on behalf of the board. An employee derives a direct benefit from a contract if they receive any income from the contract.

The district has a contract with a vendor to provide transportation services to nonpublic students. From fiscal years 2019 to 2023, this vendor was paid approximately \$105.9 million. The vendor's full-time director is also a part-time district employee whose performance responsibilities include preparing all bid specifications for transportation services and receiving all nonpublic school transportation applications (B6Ts) from which payment to the vendor is derived.

The DOE School Ethics Commission (SEC), which is a nine-member body with the power to issue advisory opinions, was created under N.J.S.A. 18A:12-27, commonly referred to as the School Ethics Act. Although the district requested and paid for the opinions of two law firms to determine if a conflict of interest exists, the district has never requested an independent opinion from the SEC.

The table on the next page shows total compensation earned by this employee from the district and vendor. The vendor information is from Internal Revenue Service Form 990, which is available to the public.

**ACCOMPLISHMENTS AND RESULTS
COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS**

LAKWOOD PUBLIC SCHOOL DISTRICT (continued)

Employer	2020	2021	2022	Total
District	\$ 130,600	\$ 142,250	\$ 123,450	\$ 396,300
Vendor	218,367	224,028	257,028	699,423
Total	\$ 348,967	\$ 366,278	\$ 380,478	\$ 1,095,723

This is a potential conflict of interest because the employee is receiving a direct financial benefit from the contract, as well as receiving and submitting applications to the district from which payment to the vendor is derived.

ACCOMPLISHMENTS AND RESULTS COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY FILM AND DIGITAL MEDIA TAX CREDIT PROGRAM

CPA Expenditure Certifications

The New Jersey Economic Development Authority (NJEDA or authority) should enhance its monitoring of the tax credit certification process.

The Film and Digital Media Tax Credit Program provides transferable credits against the corporation business tax and the gross income tax for qualified film production expenses (qualified expenses) incurred for the production of certain film and digital media content in New Jersey. The program regulations include requirements for expenses to be incurred in New Jersey and reviewed by an independent third-party Certified Public Accountant (CPA). The law defines “Incurred in New Jersey” as a service performed within New Jersey or a tangible property purchased from a vendor authorized to do business in New Jersey and is used or consumed in New Jersey. Additionally, independent CPA reports are completed based on the agreed upon procedures (AUP) derived by the authority.

Business Registration Certificates

Pursuant to the law, vendors must be authorized to do business in New Jersey, which is verified as part of the AUP review. Upon receipt of the AUP report, the authority tests 10 percent of vendors to ensure they are registered to do business in New Jersey. The authority verifies there is an active New Jersey business registration certificate (BRC) using the Division of Revenue and Enterprise Services’ (DORES) online inquiry.

We judgmentally selected 125 vendors from 13 certified projects to determine whether each vendor had a BRC. Our sample selection was based on the qualified expense amount and vendor location. Using the DORES online search engine, we found certificates for 95 of these vendors. The remaining 30 vendors were not currently registered to do business with the state; however, they could have had an active certificate at the time the project was certified. Because only currently registered businesses are included in the online search results, we contacted DORES to perform a historical match on our sample of 125 vendors based on name, EIN or Tax ID, and the date the project was certified. DORES identified 34 instances (27.2 percent) where the vendor did not have a BRC on the date of certification. In 23 cases, DORES had no record of ever receiving a business registration application based on the information provided. We were able to quantify expenses for 25 of the 34 vendors, noting \$1.5 million purchased through vendors not authorized to do business with New Jersey; these expenses should not have been included within the projects’ tax credit calculations.

ACCOMPLISHMENTS AND RESULTS

COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

FILM AND DIGITAL MEDIA TAX CREDIT PROGRAM (continued)

Agreed Upon Procedures

An AUP review is an attestation engagement in which specific procedures are performed on subject matter and findings are reported without providing an opinion or conclusion. Currently, production companies are responsible for selecting the CPA that will complete the AUP review and make sure the project's expenses meet the criteria of the program. The applicant works directly with the selected CPA and sends detailed support of production expenses to the CPA for certification. As of December 31, 2023, we noted that three CPA firms were used for 35 of the 41 film project certifications accounting for 95.9 percent of the awarded tax credits. One of these firms certified expenses for 20 projects accounting for 60.9 percent of the awarded tax credits. The authority relies almost exclusively on the CPA firm's expertise and the resulting AUP report to certify the project's tax credit amount; therefore, the authority documents only summary expenditure information on its internal systems.

Requiring third-party CPA reviews does not diminish the need for the authority to review certified project expenses. The NJEDA should have more oversight of the tax credit certification process by regulating CPA selection and performing a detailed review of the completed AUP reports. Our review of another state's investigation disclosed fraudulent expenditures submitted by a production company that switched CPA firms. The first firm disallowed certain expenses; however, the second firm allowed them and only the second review was submitted to the regulatory agency. Additionally, another state, following an audit of its film tax credit program, established a list of eligible third-party CPA firms that had completed training and were certified by that state's revenue department to complete film tax credit reviews. That state currently has twelve firms included on the list, and all of them have a primary address within that state. It should be noted that two of the CPAs included on the other state's list were responsible for reviewing the majority, 75.7 percent, of New Jersey's certified tax credits. Using firms based in New Jersey to conduct AUP reviews could also further the economic impact of the program.

The authority does not have right-to-audit agreements with the CPA firms and therefore cannot request any detailed expense information from them. However, the authority does have the right to request expense information from the applicant as described in the approval letter for program participation. No requests for expense information were made until our requests during the audit. We requested the authority obtain from the applicant the detailed support documentation sent to the CPA for four judgmentally selected film projects with certified tax credits. One applicant took more than four months to provide the requested information, and none of the sets of support documentation we received from the four applicants contained adequate information to clearly support the expenses reported in their respective AUP report.

ACCOMPLISHMENTS AND RESULTS
COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY
FILM AND DIGITAL MEDIA TAX CREDIT PROGRAM (continued)

Reviewing a limited number of certified expenses and resulting tax credit calculations would allow the NJEDA to better verify the work of the CPA firms and ensure it acquires and maintains expertise in the film and digital media production industry. This practice could also further deter ineligible expenses. During our fieldwork, the authority established agreed upon procedures and contracted with a CPA firm to review select certified projects and ensure their expenses met the criteria of the program. Going forward, this review will be completed after the AUP report is issued by the CPA firm selected by the production company and should eliminate the authority's need for an increased internal review process.

Program Fees

Fees collected have not covered the program's administrative costs.

The authority has developed a model to compare fees received to the costs incurred by the authority in the administration of specific programs. The model inputs include staff and their estimated time working on a specific program, and it allocates general, administrative, and overhead expenses to produce a program's cost estimate over a specific time period. This estimate is then compared to fees received over that same time period. After we inquired about program fees, the authority applied the model to the program, and it was determined that fee revenue (\$475,768) covered only 69.9% of administrative costs (\$680,181) in 2022. The authority has proposed new rules to modify the fee structure for the program, which were approved by the authority's board in February 2024. If implemented, the new rules would replace the existing fee structure, and the program's fees would be expected to cover the program's administrative costs.

ACCOMPLISHMENTS AND RESULTS

COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

PLAINFIELD PUBLIC SCHOOL DISTRICT

Health Benefits

The Plainfield Public School District (district) could have saved \$6.4 million in fiscal year 2023 if it had participated in the School Employees' Health Benefits Program.

The district provides its eligible employees and their dependents medical, prescription, dental, and vision coverage through private plans. Health benefits costs amounted to \$26.6 million in fiscal year 2023.

According to N.J.S.A. 18A:55-3a, as a condition of receiving State Aid, a school district is required to examine all available group options for every insurance policy held by the district, including any self-insurance plan administered by New Jersey School Boards Association Insurance Group on behalf of districts and should participate in the most cost-effective plans. The district uses the services of a broker when choosing health benefits plans and is provided with a market analysis listing plan options and potential savings, including participation in the School Employees' Health Benefits Program (SEHBP). The broker's compensation is based on the cost of premiums.

The state offers medical and prescription drug coverage to qualified school district employees and their eligible dependents under the SEHBP. Local employers must adopt a resolution to participate in the SEHBP. We performed a comparison of the district's fiscal year 2023 medical and prescription costs to the SEHBP's costs utilizing state rates effective January 2023 through December 2023. Using average enrollment for fiscal year 2023, we estimated the district could have saved approximately \$6.4 million if it had participated in the SEHBP.

The district was aware of potential savings from participation in the SEHBP. The broker's analysis for fiscal year 2023 estimated a 26 percent savings for medical and 22 percent savings for prescription costs if the district participated in the SEHBP.

Preschool Program

Pursuant to the School Funding Reform Act, P.L.2007, c260, adopted in January of 2008, the district offers a free full-day preschool program for three- and four-year-old students living in the city of Plainfield whose birthday comes on or before October 1st of the enrolling school year. During school years 2021-2022 and 2022-2023, services were provided by nine contracted preschool providers for an average of 1,446 students per day. Total expenditures during this period averaged \$23.2 million, including payments to the nine providers averaging \$20.4 million

ACCOMPLISHMENTS AND RESULTS COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

PLAINFIELD PUBLIC SCHOOL DISTRICT (continued)

Payments To Providers

The district paid an additional \$884,969 to private providers of preschool education for services that could have been provided as part of their original contracts.

N.J.A.C. 6A:13A-10.1 requires the district board of education to verify the accuracy and efficiency of annual budget planning workbooks submitted by each contracting private provider and ensure that the budget of each provider aligns with the actual program costs. The code also requires the district board of education to monitor the expenditures of each provider to recoup any unexpended or misspent funds based on the providers' quarterly expenditure reports and enrollment records. According to N.J.A.C. 6A:13A-10.2, amendments to or budget transfers within the approved budget planning workbook require approval by the district board of education. The School Funding Reform Act allows the district to carry forward any preschool education aid not expended by the district during the budget year.

During our review of school year 2021-2022 budgets submitted by private providers and respective payments made to the providers by the district, we noted the district increased original budgets for three of nine providers by \$523,315, \$194,897, and \$166,756, respectively, without board approval. According to the district, the budgets were revised because the three providers were compensated for absorbing additional students previously schooled by a provider that discontinued its services at the end of the previous school year. During its last year of operation, that provider had served an average of 52 students.

It is questionable whether the budget increases were necessary or justified because there were 149 open slots available as of September 2021 at the remaining providers where the students could have received services without additional cost to the district. The district was unable to provide us with copies of revised budgets or any planning or fiscal analysis in support of the increases. The only written documentation presented was a letter issued in October 2021 by the district's Office of Early Childhood approving increased funding for a provider that received an additional \$523,315. The letter asked the provider to submit a line-item budget by November 15, 2021, after the funds had already been approved. Furthermore, by the time the letter was issued, students served by the former provider had already been placed and were receiving services from other providers. Similar approval letters for supplemental funding issued to the other two providers were not available for our review.

We reviewed school year 2021-2022 payments made by the district to the three providers, quarterly expenditure reports submitted by the providers, and actual versus originally contracted enrollments. We noted that the provider that received \$523,315 did not hire any additional teachers, its daily average enrollment remained at or below originally contracted students for all but one month, and the provider did not spend any of the supplemental funding. The remaining two providers enrolled some additional students beyond those originally contracted, one employed an additional teacher, and both spent most of their supplemental funding.

ACCOMPLISHMENTS AND RESULTS COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

PLAINFIELD PUBLIC SCHOOL DISTRICT (continued)

Enrollment Documentation

The district failed to collect required residency documentation.

The district offers a free full-day preschool program to Plainfield residents. The district requires the child's original birth certificate, updated immunization records with the most recent physical exam, and proof of Plainfield residency, such as a current utility bill and official mail in one of the parent's names to enroll the student into the program. If the utility bills are included in rent and/or are not in either parent's name, a notarized affidavit of residency form signed by a landlord/utility account holder and a copy of their current utility bill must be obtained, as well as any current official mail in either parent's name for proof of address.

There were 825 students enrolled in the four-year-old preschool program for the 2021-2022 school year. We tracked their enrollment through the 2022-2023 school year and identified 137 students who did not continue their education within the Plainfield Public School District, including 64 who attended kindergarten in neighboring school districts during the 2022-2023 school year. We judgmentally sampled 52 of the 64 students to determine if adequate documentation had been obtained by the district at the time of preschool enrollment.

We found that residency documentation required by the district was not available for 12 students (23 percent): the district could not locate any enrollment documents for four students, and proof of residency documentation for eight students was insufficient.

We performed further searches to verify the addresses of the eight students. For three of the eight students, we could not find any information indicating residency in Plainfield but found probable residency in neighboring towns that do not provide free preschool education for all students. At an approximate average cost per student of \$16,298 during the 2021-2022 school year, the district likely spent \$195,576 on ineligible students.

Procurement

Procurement Process

The district did not always comply with applicable purchasing policies and regulations.

N.J.A.C. 6A:23A requires a school district to establish policies and procedures on internal controls, which are necessary to promote operational efficiency and effectiveness, provide reliable financial information, safeguard assets and records, encourage adherence to prescribed policies, and comply with laws and regulations.

ACCOMPLISHMENTS AND RESULTS COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

PLAINFIELD PUBLIC SCHOOL DISTRICT (continued)

Total non-payroll general fund expenditures totaled \$63.3 million, \$73.7 million, and \$98.5 million for fiscal years 2021, 2022, and 2023, respectively. The district purchases goods or services through state contracts, cooperative purchasing programs, or directly from vendors after obtaining bids or quotes when required. According to N.J.S.A. 18:18A (Public School Contracts Law), goods or services that in the aggregate are \$6,000 or more but less than the bid threshold for the entire year (\$44,000 during our audit period) require at least two competitive quotes. Public advertising for bids is required when procuring goods or services that in the aggregate exceed the bid threshold. The district has a decentralized process where the individual requesting the goods or services is required to obtain price quotes for applicable transactions. If the transaction exceeds the bid threshold, the district's procurement department has the responsibility of advertising for bids.

We judgmentally selected 70 transactions totaling \$4.9 million for testing based on dollar amounts and vendors. Our testing identified the following internal control weaknesses over procurement:

- Nine transactions (13 percent) totaling \$224,534 lacked documentation of a competitive procurement process in accordance with the Public School Contracts Law.
- Fifteen transactions (21 percent) totaling \$281,497 were unauthorized purchase orders (confirming orders). The district's purchasing manual prohibits unauthorized purchases, which are defined as orders placed and/or received for any materials, supplies, or services without first going through the approved purchase process.
- Seven transactions (10 percent) totaling \$150,198 did not match the quote, price list, or bid pricing, resulting in \$18,886 of overpayments. Additionally, we could not verify the accuracy of pricing for two transactions (3 percent) totaling \$251,751 because we were not provided with adequate supporting documentation.
- Five purchase requisitions (7 percent) totaling \$131,636 were not created or approved properly.

ACCOMPLISHMENTS AND RESULTS COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

PLAINFIELD PUBLIC SCHOOL DISTRICT (continued)

Landscaping Services

The district circumvented the procurement regulations for landscaping services and conducted business with multiple companies owned by the same individual.

The district paid an average of \$271,435 per year during our audit period for landscaping services and seasonal maintenance services without publicly advertising for bids as required by N.J.S.A. 18A:18A-3 and the district's purchasing manual. Instead, the district divided services by type and location and created multiple purchase orders to circumvent bidding requirements. Advertising for bids is required when procuring goods, materials, services, and public work projects exceed \$44,000 in the aggregate. The aggregate cost is defined as the sums expended for goods or services in connection with the same purpose or task.

Furthermore, the district paid six companies owned by the same individual \$127,290, \$142,100, and \$234,565 in fiscal years 2021, 2022, and 2023, respectively, for landscaping and seasonal cleanup services. In four instances, two quotes for the same service request were provided to the district by two companies owned by the same individual. These quotes had the same date, address, and/or phone number.

Debarred Vendor

The district conducted business with a vendor on the debarred list.

Debarment is defined by former Governor Brendan Byrne's Executive Order #34 as measures that should be invoked by the state to exclude or render ineligible persons from participation in contracts and subcontracts with the state. These measures should be used to protect the interests of the state. Additionally, the district's purchasing manual prohibits the board of education from entering into a contract for work with a vendor that is on the Department of Labor and Workforce Development's (DOLWD) Prevailing Wage Debarment List. We compared vendors used by the district during fiscal years 2021 through 2023 to DOLWD'S debarment list and found that the district had used a debarred vendor. The vendor had been debarred in July 2022, and the district created five purchase orders between August 2022 and January 2023 totaling \$306,374. After we brought this debarred vendor to the district's attention, it canceled all future transactions. Total payments already made to the vendor were \$252,819.

A lack of competitive procurement, proper documentation, unauthorized purchases (confirming orders), and weak internal controls over the procurement process could lead to improper expenditures of district funds.

ACCOMPLISHMENTS AND RESULTS
COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

PLAINFIELD PUBLIC SCHOOL DISTRICT (continued)

Non-Instructional Expenditures Efficiency

The district exceeded efficiency standards for hired custodians, and the district’s overtime cost would have been \$2 million less had the district achieved the standards.

N.J.A.C. 6A:23A-9.3 establishes efficiency standards for the review of administrative and non-instructional expenditures and efficient business practices. In determining whether a school district has implemented all potential administrative efficiencies and/or eliminated all excessive non-instructional costs, the executive county superintendent shall consider the efficiency standards and Taxpayers’ Guide to Education Spending indicators. According to the code, overtime pay for any given function should not exceed 10 percent of regular wages for that function.

During fiscal years 2022 through 2023, the district overtime payments totaled \$4.6 million. The overtime for custodial services, security, maintenance for school facilities, student transportation services, and administrative information and technology exceeded 10 percent of regular wages for each function.

Had the district achieved the efficiency standards, \$2 million in overtime savings could have been achieved, as summarized in the following table:

FY 2022 - FY 2023				
Work Function	Regular Wages	Total Overtime	Overtime - 10% of Wages	Savings if 10% Efficiency Achieved
Custodial Services and Building Rentals	\$ 11,307,566	\$ 2,224,790	\$ 1,130,757	\$ 1,094,033
Security	4,032,363	801,255	403,236	398,019
Maintenance for School Facilities	1,463,305	363,325	146,330	216,994
Student Transportation Services	3,492,186	493,602	349,219	144,384
Administrative Information Technology	2,686,118	367,725	268,612	99,114
Total	\$ 22,981,538	\$ 4,250,698	\$ 2,298,154	\$ 1,952,544

We reviewed the custodial staffing efficiencies because they earned the most overtime. According to N.J.A.C. 6A:23A-9.3, the efficiency standard for the use of custodians and janitors is a ratio of one employee for every 17,500 square feet of building space calculated on a districtwide basis. Pursuant to the Common Education Data Standards (CEDs), one custodian, properly supplied and equipped, should be able to clean 19,000 to 25,000 square feet of space in eight hours, depending on the condition and use of the facility, to ensure the health and comfort of building users. The CEDs specify one custodian can clean approximately 11,000 to 18,000 square feet in an eight-hour period if performing more intensive cleaning.

ACCOMPLISHMENTS AND RESULTS
COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

PLAINFIELD PUBLIC SCHOOL DISTRICT (continued)

Based on the efficiency ratio established in the administrative code, the district needs 76 custodians for their 1,316,059 square feet of building space. Between July 2021 and December 2022, the district employed an average of 94 custodians covering an average of 14,442 square feet each. Average annual earnings for custodians in fiscal year 2023 were \$66,671.

The district submits a midyear efficiency report to the County Superintendent, which includes the district's statement on overtime and custodial staffing efficiency. Our review of the December 2021 and December 2022 midyear reports noted the district claimed overtime efficiencies of 10 percent or less for any given function had been achieved and custodial staffing efficiency was achieved.

ACCOMPLISHMENTS AND RESULTS COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

SALEM CITY SCHOOL DISTRICT

Procurement

Internal controls over the Salem City School District (district) procurement process were ineffective.

According to N.J.A.C. 6A:23A, management is responsible for establishing specific internal control policies and procedures designed to provide a reasonable assurance that the district's goals and objectives will be achieved. Internal controls shall promote operational efficiency and effectiveness, provide reliable financial information, safeguard assets and records, encourage adherence to prescribed policies, and comply with laws and regulations.

Our tests and analyses of the district's procurement process identified multiple breakdowns in internal controls. Noncompliance with state laws, regulations, district policies, and procedures was also noted in multiple areas.

Bid Threshold

N.J.S.A. 18A:18A-4 states that every contract for goods or services, where the aggregate cost exceeds the bid threshold, shall be awarded only by resolution of the board of education to the lowest responsible bidder after publicly advertising for bids, with some exceptions. Since fiscal year 2021, the bid threshold applicable to the district has been \$44,000.

We prepared an analysis of vendors that received payments in excess of the bid threshold during fiscal years 2021 or 2022 and identified 21 vendors subject to the public bidding requirement. No public bidding was done for goods or services obtained from 12 vendors (57 percent). Without public bidding, we cannot confirm the district obtained a fair price or that other vendors were given the opportunity to participate. Management acknowledged the district was aware of the bidding requirement but did not always comply. Examples of goods or services acquired without proper bidding include the following:

- The district has contracted with a college admissions consultant since 2015 without public bidding. During our audit period, the annual cost for these services was \$187,000. The vendor agreement on file in the business office lacked specifics regarding the scope of work to be performed.
- Various construction projects with costs in excess of the threshold were not bid, including the installation of generators for \$157,049; flooring for \$149,637; locker room renovations for \$52,880; tennis court renovations for \$48,700; and construction of a pole barn for \$45,138.

ACCOMPLISHMENTS AND RESULTS COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

SALEM CITY SCHOOL DISTRICT (continued)

- Other goods purchased included laptop computers for \$325,900; air purifiers for \$119,788; sporting goods and apparel for \$79,827; and water heaters for \$44,620. Purchased services included \$72,251 for transportation and \$65,161 for supplemental janitorial services.

In lieu of publicly bidding for its new track and field project during fiscal year 2019, the district hired a vendor through a cooperative purchasing agreement. The vendor was paid \$1,313,490 for this project. We were unable to match amounts in the vendor's proposal and invoices to the terms of the cooperative purchasing agreement. The procurement for this project was handled by a general contractor on the district's behalf. We reached out to the general contractor to verify compliance with the terms of the cooperative agreement; however, no information was provided.

Quotation Threshold

N.J.S.A. 18A:18A-37(a) requires the purchasing agent for any contract that in the aggregate is less than the bid threshold but 15 percent or more of that amount to award the contract after soliciting at least two competitive quotations, if practicable, and retain a record of the quotation solicitation. The applicable quotation threshold for the district has been \$6,600 since fiscal year 2021.

We identified 95 vendors with aggregate purchases during fiscal year 2021 and/or 2022 that exceeded the quotation threshold but were less than the bid threshold. We randomly selected 20 of those vendors and judgmentally selected each of the vendors' highest-dollar purchase to verify at least two quotations were obtained, if required. We determined quotes were required for 12 of 20 purchases totaling \$81,302; however, support documentation for 11 of the 12 purchases (92 percent) totaling \$68,983 lacked any evidence that a second quotation was obtained. Without additional quotations, we cannot confirm the district received a fair price or that other vendors were given the opportunity to participate.

Professional Services

N.J.A.C. 6A:23A-5.2 requires each district to establish by policy a strategy to minimize the cost of professional services. The policy shall include having professional services contracts be issued in a deliberative and efficient manner that ensures the district receives the highest quality services at a fair and competitive price. This may include, but is not limited to, issuance of such contracts through a request for proposals (RFP) based on cost and other specified factors.

The district has adopted formal policies that include provisions for the procurement of professional services through a deliberative process such as an RFP; however, we noted that no deliberative process was used. Professional services contracts for architectural, legal, and auditing services were awarded annually without any competitive or deliberative process.

ACCOMPLISHMENTS AND RESULTS

COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

SALEM CITY SCHOOL DISTRICT (continued)

Segregation of Duties

According to N.J.A.C. 6A:23A-6.5, the School Business Administrator (SBA) shall identify processes in violation of sound segregation of duties and shall segregate the duties of all processes among business office staff, based on available resources. Specifically, the functions of purchasing and accounts payable shall be segregated and completed by different employees. Inadequate segregation of duties for these functions increases the risk of improper purchases and payments.

Including the SBA, the district's business office has only four employees; therefore, employees must perform multiple functions. Our review of the district's purchasing and accounts payable functions found that those functions were not adequately segregated. The district's accounts payable clerk is also the primary employee responsible for approving purchase orders. We analyzed non-payroll purchases from fiscal year 2021 through 2023 and found that the district's accounts payable clerk approved 97 percent of all purchase orders, comprising 80 percent of dollars expended during this period. Additionally, we noted that this employee not only approved but also entered 28 percent of all purchase requisitions comprising 59 percent of dollars expended during this period.

Purchase Orders

As of September 2022, the district expended \$25,231,337 from its general and special revenue funds on 1,579 purchase orders created during fiscal years 2021 and 2022. We randomly selected 40 purchase orders totaling \$239,849 to test for compliance with the district's policies and procedures and noted the following:

- The district's purchasing procedures require a rationale to determine why the purchase is essential to the school district. There was no evidence that a rationale was provided for 29 of the 40 purchase orders (73 percent) we tested. Purchase orders generally only stated *what* goods or services were being purchased but not *why*. The lack of a rationale for purchase orders increases the risk that district funds could be used for nonessential or improper purchases.

ACCOMPLISHMENTS AND RESULTS

COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

SALEM CITY SCHOOL DISTRICT (continued)

- District policy requires that all vendors doing business with the district are registered with the State of New Jersey and provide proof of that registration to the business office. Copies of business registration certificates shall be kept on file. The business office did not have copies of business registration certificates for 22 of 33 vendors (67 percent) we tested. We looked up these vendors on the New Jersey Division of Revenue and Enterprise Services (DORES) website but were unable to verify state business registrations existed at all for 9 of the 22 vendors. We expanded our sample and attempted to verify that the district had business registration certificates on file for all vendors with purchases exceeding the bid threshold during fiscal years 2021 and 2022. Of 37 vendors that were required to register, no business registration certificates were on file for 23 vendors (62 percent). We looked up these vendors on the DORES website but were unable to verify state business registrations existed at all for six of these 23 vendors.
- Nine of the sampled 40 purchase orders (23 percent) 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 district policy and increases the risk that the budget could be overspent because of unrecorded liabilities.

Receipt Verification

Prior to issuing payment, district procedures require the responsible employee to sign a gold copy of the purchase order (receiving copy) and forward it to the accounts payable clerk as an acknowledgement that purchased goods or services were received. Breakdowns in these procedures could result in erroneous payments for goods or services.

Excluding payroll and fringe benefits transactions, the district made payments on 1,599 purchase orders from its general and special revenue funds totaling \$16,537,205 during fiscal years 2021 and 2022. We randomly selected 26 purchase orders totaling \$161,115 to verify receipt of goods or services. Our review noted the following issues:

- Four of 23 signed receiving copies (17 percent) totaling \$4,340 were signed by the accounts payable clerk instead of an individual in the school or unit where the goods or services were received.
- Three of 26 purchase orders (12 percent) totaling \$24,328 did not have a signed receiving copy available for inspection.
- When partial payments are necessary, the district's purchasing procedure requires notification to the business office for the item(s) that were received; however, of six purchase orders we tested where partial payments were made, three (50 percent) totaling \$21,995 lacked evidence to support partial payment amounts.

ACCOMPLISHMENTS AND RESULTS

COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

SALEM CITY SCHOOL DISTRICT (continued)

International Baccalaureate Program

The district's International Baccalaureate program had excessive travel costs and lax admissions standards.

The district's high school offers a two-year International Baccalaureate Diploma Programme (IB program) for students in grades 11 and 12. It is a rigorous academic program, similar to Advanced Placement (AP) courses, where students study six subjects over two years to better prepare them for success in college and beyond. Enrollment in the program has increased steadily since the program began, from 6 students in fiscal year 2013 to 53 students in fiscal year 2024.

It is the responsibility of management to ensure an efficient and effective use of the district's resources. Our review of the IB program disclosed issues regarding international trips and admissions criteria for the IB program.

International Trips

The district finances an all-expenses-paid international trip during the summer between 11th and 12th grade for IB students and employee chaperones from its General Fund. Destinations during our audit period included Scotland (twice), Costa Rica, Croatia, and Portugal. We reviewed support documentation and noted the following issues regarding these trips:

- On average, 19 students traveled at a total cost of approximately \$75,000 per trip, or \$3,900 per student. Students did not contribute or raise funds to offset the cost of the trips.
- We noted several instances where the district purchased airfare and accommodations that were not used. Over the five trips we reviewed, the district paid \$6,789 for 8 unused roundtrip tickets and \$28,080 for unused accommodations. Unused airfare and accommodations accounted for nine percent of the total cost of trips.
- On average, there was one employee chaperone for every 3.2 students even though the organization that hosts the trips provides chaperones. Employee chaperones were primarily responsible for getting students to and from the destination. Once they arrived, most employee chaperones (53 percent) stayed offsite and would check in with students periodically. Over the five trips, the district paid \$15,997 for 12 offsite chaperone hotel rooms.
- We were informed that spouses were permitted to travel with the group at their own expense; however, we noted three instances where the district was billed by the travel agency and paid for the IB coordinator's spouse's airfare totaling \$2,941. The district received refunds for two of these instances totaling \$1,285 after we brought the issue to the travel agency's attention.

ACCOMPLISHMENTS AND RESULTS

COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

SALEM CITY SCHOOL DISTRICT (continued)

- According to district policy, the board of education must approve all field trips. Of the five trips we reviewed, only two were included on board meeting agendas and only one agenda included the full cost of the trip. The other agenda included only 39 percent of the total cost. Airfare and hotel charges were listed as “to be determined”.

In our research, we were unable to identify any other IB-participating school districts that provided free international trips for students. The district acknowledged that Salem City is the only district that pays for it. According to management, the rationale is that the IB program teaches students to be internationally minded, and as a low-income district, most students have never traveled outside of the country.

To determine whether IB students were from low-income households, we reviewed demographic information from fiscal years 2019 through 2024 in the district’s student information system to see if they qualified for free or reduced lunch. Only 33 percent of IB students qualified for free or reduced lunch, significantly less than the overall high school rate of 52 percent and district-wide rate of 70 percent during the same period.

IB Admissions

Prior to fiscal year 2024, the only requirements for entrance into the IB program were that students “must be hard workers and want to earn the IB diploma”. Beginning in fiscal year 2024, they must also have a minimum unweighted grade point average of 2.0. Students who successfully complete all requirements of the IB program and score well enough on examinations can earn an IB diploma. Examination fees are \$714 per student, and the district’s average annual expenses for these examinations were \$15,956 for fiscal years 2019 through 2023.

According to data released by the International Baccalaureate Organization, the worldwide diploma rate for IB students was 84 percent from 2019 to 2023. The district’s IB diploma rate over the same period was only 12 percent.

Application for State School Aid (ASSA)

Errors in resident pupil counts on the district’s ASSAs resulted in overpayments of \$1 million to the district.

School districts must annually submit an ASSA to the New Jersey Department of Education (DOE). The ASSA includes a district’s resident pupil enrollment count as of the last school day prior to October 16th of the current school year. It is critical for districts to submit accurate information because the DOE uses this information to calculate State Aid for the following school year. The SBA works with an employee in the technology unit to extract enrollment information from the district’s student information system to complete the ASSA before submitting it to the DOE.

ACCOMPLISHMENTS AND RESULTS

COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

SALEM CITY SCHOOL DISTRICT *(continued)*

We compared resident pupil counts according to the district’s student information system to those submitted by the district for the October 2020, 2021, and 2022 ASSAs and noted variances of 48, 39, and 20 resident pupils, respectively. Detailed support documentation for the district’s October 2020 ASSA submission was not available for inspection, and our review of support for the 2021 and 2022 ASSAs noted variances between the information submitted and the student information system, including: students not enrolled as of the ASSA date(s), nonresident students counted as district residents, and duplication of choice students. The district relied on reports provided by the technology department and acknowledged it was unaware of the need to back out nonresident students.

We reached out to the DOE’s fiscal unit responsible for calculating State Aid to request an estimate of the excess State Aid the district received as a result of the resident enrollment errors we identified. According to the DOE, the district received excess State Aid for fiscal years 2022, 2023, and 2024 totaling \$1,033,328. This estimate is conservative because it does not consider whether overcounted students were classified as “at-risk” (low income and/or limited English proficiency), which would result in additional State Aid under the funding formula.

Sending District Tuition

The district underbilled sending districts for regular education tuition and used an arbitrary rate for its resource room.

Regular Tuition

The district provides regular education services to high school students from four nearby sending districts. Tuition revenue for regular education services from those districts averaged \$1.8 million in fiscal years 2020 through 2022 for an average of 112 students. According to tuition agreements between the district and sending districts, tuition is paid at an estimated rate for an estimated number of students. After the district’s financial audit, the DOE certifies the “actual cost per student”, which the district uses to adjust for variances between estimated and actual tuition amounts. To calculate the cost per pupil, the DOE relies on expenditures from the district’s audited financial statements and average daily enrollment (ADE) information that is self-reported by the district on its Student Register Summary (SRS). The ADE counts provided in the SRS are not audited by the district’s financial auditor or the DOE, increasing the risk that errors could go undetected.

We generated ADE reports from the district’s student information system to reconcile to the ADE counts submitted on the district’s SRS and noted significant discrepancies. For fiscal years 2020, 2021, and 2022, the ADE counts reported by the district exceeded the ADE counts per its own records by 293 students (24 percent), 102 students (9 percent), and 92 students (8 percent), respectively. The district’s SRS submissions were prepared by an employee in the district’s technology department who was unable to provide any support documentation for the SRS submissions upon our request.

ACCOMPLISHMENTS AND RESULTS

COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

SALEM CITY SCHOOL DISTRICT (continued)

As a result of these errors, the district's certified costs per pupil for fiscal years 2020, 2021, and 2022 were understated by \$2,463; \$1,375; and \$1,199; respectively. The district thereby limited the amount it could recover from sending districts by \$558,861 for the three fiscal years we reviewed.

Additionally, tuition adjustments were not calculated properly. For the three fiscal years, net overcharges to the sending districts totaled \$135,879 based on the DOE certified cost per pupil. The district did not account for the variance between estimated and actual enrollments in fiscal years 2021 and 2022. We were unable to determine the cause of errors in fiscal year 2020 because of a lack of support documentation.

Resource Room

According to N.J.A.C. 6A:23A-17.1(e)(8), a receiving district may charge for students receiving services in a resource room an additional amount up to the actual direct instructional cost per student for such services calculated on an hourly basis. DOE Policy Bulletin 100-1 explains that the hourly rate is calculated by dividing the total cost of the resource room, according to audited financial statements, by the total number of pupil hours in the resource room.

The district charges sending districts an hourly rate of \$25.40 for an estimated number of hours for use of its resource room. This hourly rate has not been updated in at least eight years. The district does not have any data to support this rate nor does it record the number of pupil hours in the resource room. Without this information, we were unable to calculate the hourly cost; therefore, we cannot determine if the district is accurately charging the sending districts for resource room services.

Health and Dental Benefits

The lack of a competitive process, errors in the calculation of employee contributions, and ineligible members enrolled in health and dental benefits resulted in increased costs to the district and employees.

Potential Savings

The district procured its employee health and dental plans through a broker. The broker's services are paid via a commission from the health and dental providers as a percentage of premiums billed. This arrangement, while not uncommon in the insurance industry, gives the broker no incentive to recommend less expensive alternatives because it earns more when the district pays more for benefits. We estimated the average annual broker commissions for health and prescription drug coverage were \$216,146 from fiscal year 2021 through 2023.

ACCOMPLISHMENTS AND RESULTS

COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

SALEM CITY SCHOOL DISTRICT (continued)

N.J.S.A. 18A:55-3 requires school districts to examine all available group options for insurance policies and participate in the most cost-effective plans as a condition of State Aid. Additionally, N.J.S.A. 18A:18A-5 states that insurance contracts should be treated as extraordinary unspecifiable services, which would require quotations to be solicited when the estimated cost will exceed 15 percent of the bid threshold, if practicable. The district has not competitively procured broker services since at least January 2016, and management was unaware if any analysis was ever completed comparing costs of different plan options.

We compared the district's health plans (including medical and prescription drug coverage) to comparable plans offered through the School Employees Health Benefits Program (SEHBP) administered by the NJ Division of Pensions and Benefits. Premiums would have been approximately \$761,000 (seven percent) less from fiscal year 2021 through 2023 by using the SEHBP, attributable to the difference in the cost of prescription drug coverage. Approximately \$620,000 of this amount would have been cost savings to the district and \$141,000 to employees through reduced employee contributions.

Employee Contributions

N.J.S.A. 18A:16-17.1 requires employees to contribute to the cost of their health benefits. Premium rates are manually entered in the district's accounting system, which calculates employee payroll deductions for health benefits using the employee's salary, plan selected, and level of coverage: single, married, family, or parent and child(ren).

We found that premium rates were not updated in the accounting system after rates increased in fiscal years 2021 and 2022. Using the actual premium rates, we recalculated employee health benefits contributions for all affected employees during this period and determined the district under-collected \$26,440 in employee contributions. The district pays health benefits invoices in full and then offsets the cost with employee contributions; therefore, this was an additional cost to the district.

In addition, we performed a test of dental benefits contributions by selecting all 168 employees on the district's April 2022 invoice to determine if employees were making required contributions. According to the district's collective bargaining agreements, the district will pay dental premiums up to \$350 per employee, per year, and if an employee selects a more expensive plan, they must pay the difference. We found 12 employees whose premiums exceeded \$350 but did not contribute toward dental coverage.

ACCOMPLISHMENTS AND RESULTS COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

SALEM CITY SCHOOL DISTRICT (continued)

Ineligible Members

According to the district's collective bargaining agreements, employees and eligible dependents may enroll in its health and dental benefits plans. The district is responsible for reviewing benefits invoices to ensure only eligible members are enrolled. We tested all 173 members enrolled in medical, prescription drug, and/or dental benefits as of April 2022 to determine whether only eligible people were enrolled and found the following:

- Two retired employees remained on the district's prescription drug and dental plans from September 2020 until September 2022 when we brought it to the district's attention. Prescription drug premiums paid by the district during the period of ineligibility totaled \$22,279.
- Two over-age dependents remained on the district's dental plan until September 2022 after coverage should have been terminated in 2013 and 2014.
- One former employee was erroneously enrolled in dental coverage after separation in May 2021. This was corrected in October 2022 when we brought it to the district's attention.

The district did not perform an adequate review of monthly benefits invoices to ensure only eligible members were enrolled, leading to increased costs.

ACCOMPLISHMENTS AND RESULTS

COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

SOUTH JERSEY TRANSPORTATION AUTHORITY SELECTED PROGRAMS

Missed Toll Revenue

Toll revenue collection efforts should be strengthened.

Vehicle Registration Suspension

N.J.S.A. 27:25A-21 allows for the suspension of a person's vehicle registration certificate for refusing or evading the payment of tolls. To improve toll collection efforts, the South Jersey Transportation Authority (SJTA) entered into a Memorandum of Understanding (MOU) with the New Jersey Motor Vehicle Commission on August 13, 2015 to suspend vehicle registration certificates and the registration privileges of any person violating the provisions of the South Jersey Transportation Authority Act, including the requirement for the payment of tolls. The SJTA last implemented this collection process in September 2018, though the SJTA extended the MOU four times before the last one expired on September 30, 2021. The SJTA does not currently have formal procedures for the registration suspension process.

The SJTA's previous process to identify entities and individuals for vehicle registration suspension was to compile a list of accounts that had been issued a violation within the past year and had more than \$200 in tolls due to the SJTA. If an account holder agreed to a repayment plan, the SJTA would forgive half of the administrative fees due. In September 2018, the SJTA identified 269 individual and 27 business New Jersey EZ-Pass accounts for suspension. The sum of toll and administrative fees due to the SJTA from those accounts amounted to approximately \$2 million and \$300,000 for individual and business accounts, respectively. Of those accounts, 170 individual and 20 business accounts had their vehicle registration suspended. The remaining accounts were noted as paid in full, scheduled for repayment or hearing, deceased, bankrupt, or removed after review.

The SJTA did not keep track of performance metrics or outcomes of the registration suspension process. We obtained and analyzed information relating to repayment amounts of the accounts noted in the 2018 suspension process and found 51 of the 269 individual accounts (19 percent) entered a repayment plan and reduced their unpaid balance by approximately \$102,000, or 29 percent. Of the 27 business accounts, 5 (19 percent) reduced their toll balance due by approximately \$16,000, or 29 percent.

We analyzed toll account data with violations incurred between August 4, 2022 and August 3, 2023 and having more than \$200 in toll violations. We found 2,748 New Jersey accounts with unpaid toll balances totaling approximately \$31.3 million, with \$1.9 million attributed to tolls and \$29.4 million to fees. Based on the SJTA's prior practice of forgiving half of the administrative fees if a customer entered into a repayment agreement, the SJTA could attempt to recover an estimated \$16.6 million in outstanding violation tolls and administrative fees. Vehicles registered in the State of Pennsylvania accounted for a total of approximately \$3.1 million violations during the same time frame.

ACCOMPLISHMENTS AND RESULTS COST SAVINGS, IMPROPER PAYMENTS, AND REVENUE ENHANCEMENTS

SOUTH JERSEY TRANSPORTATION AUTHORITY SELECTED PROGRAMS *(continued)*

In January 2024, the Governor of New Jersey signed legislation authorizing the Department of Transportation to establish and administer a toll collection and enforcement system by way of vehicle registration suspension on behalf of New Jersey toll authorities and to enter into reciprocal agreements for the enforcement of toll violations with toll authorities from other states.

Violation Processing

There is a total of 60 toll collection points on the Atlantic City Expressway at which the SJTA collects tolls. We identified issues at numerous toll collection points where toll violations were not processed. This is attributed to malfunctioning violation equipment, the absence of equipment installations, or the SJTA electing not to process the violation even when the required information is available. From January 1, 2022 through October 25, 2023, unprocessed toll violations at those lanes amounted to approximately \$1.5 million.

Insufficient Fund Slips

Insufficient fund slips are issued to Atlantic City Expressway customers who do not have funds to pay for the toll at two cash collection points. The customer is given the slip to provide information, such as name, address, license plate number, and signature. The customer is then given another slip with directions on how to pay the toll. Payments can be mailed in or dropped off. The toll collector includes the completed slip with the end-of-shift reports.

We analyzed insufficient fund slip transaction data for the period January 1, 2022 through October 25, 2023 and noted approximately 29,000 transactions totaling \$119,000 in tolls due. The SJTA received mail-in payments, which were likely for insufficient fund slips, reducing the outstanding balance to approximately \$87,000. The SJTA does not attempt to recover tolls from customers who were issued insufficient fund slips. In addition, the SJTA does not reconcile the payments to the insufficient fund slips. This is not an adequate record keeping process and does not allow the SJTA to initiate an accurate revenue collection effort.

**ACCOMPLISHMENTS AND RESULTS
OTHER FINDINGS AND OBSERVATIONS OF INTEREST**

ACCOMPLISHMENTS AND RESULTS OTHER FINDINGS AND OBSERVATIONS OF INTEREST

DEPARTMENT OF HEALTH DIVISION OF CERTIFICATE OF NEED AND LICENSING CERTIFICATE OF NEED PROGRAM

Timeliness of the Application Review Process

The Division of Certificate of Need and Licensing (division) is not completing the application process within the required timeframes, and the department is not completing annual reviews.

According to N.J.A.C. 8:33-4.1, a full review of a Certificate of Need application must be completed within 210 days from the filing date, and an expedited review must be completed within 90 days. The filing date is recorded as the first business day of the following month after the division determines the application is ready for review. In certain situations, supplemental or clarification information is required during a review of the application. This is accomplished by the division sending an applicant a “Completeness Questions” letter which requires the applicant to respond within 10 business days. Multiple rounds of letters could be sent to an applicant, if necessary. When Certificate of Need applications are not finalized within regulatory requirements, the construction of a new facility, expansion of an existing facility, or addition of supplemental services could be delayed.

We reviewed all 15 Certificate of Need applications approved from July 1, 2021 through August 31, 2023 to determine if the division was in compliance with the administrative code. Of the four applications that required a full review, no exceptions were noted, with the average timeframe for each application being 145 business days. The remaining 11 applications required an expedited review, and we noted 9 were not reviewed by the division within the required 90 days. The exceptions ranged from 166 to 260 total business days to review, with an average timeframe of 213 business days. Our review considered whether the “Completeness Questions” letters and applicant response times significantly contributed to the division’s inability to complete expedited reviews in the required timeframe; we determined they did not, as the applicants responded in a reasonable number of days.

In addition, the administrative code requires the department to conduct an annual review of the department’s ability to process Certificate of Need applications in accordance with the regulatory requirements. Any exceptions to the acceptable timeframes are to result in immediate corrective action. We found no documentation indicating annual reviews are completed in order to determine whether the division is processing at least 90 percent of applications within the required timeframes.

**ACCOMPLISHMENTS AND RESULTS
OTHER FINDINGS AND OBSERVATIONS OF INTEREST**

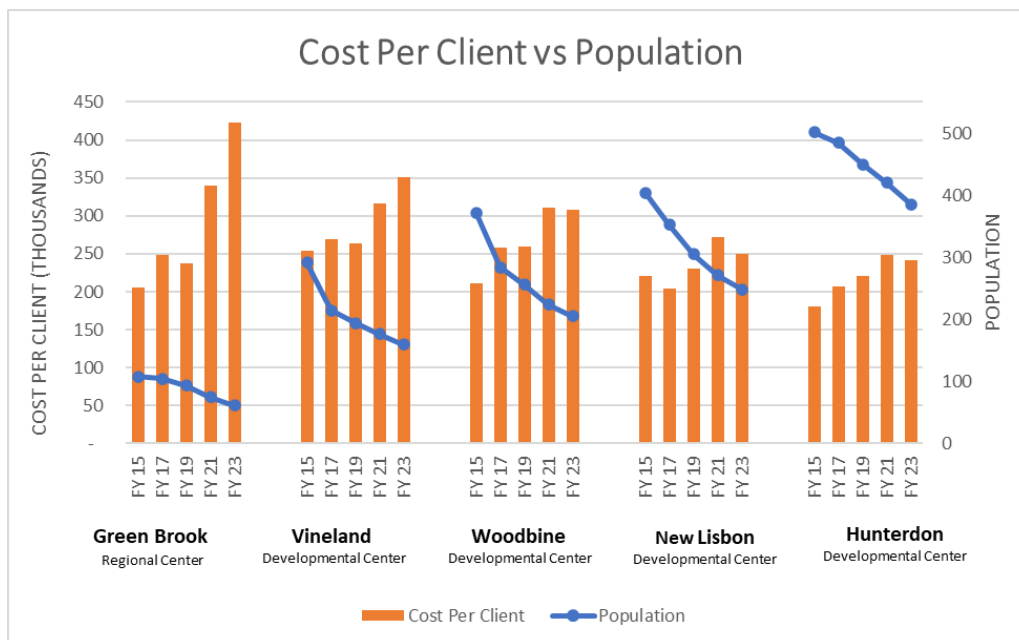
**DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
GREEN BROOK REGIONAL CENTER**

Observation

Consolidation of the Green Brook Regional Center (GBRC) and the Hunterdon Developmental Center (HDC) may result in a more efficient use of the centers and state funds.

On June 22, 1999, the United States Supreme Court issued a landmark decision for individuals with developmental disabilities, recognizing community living as a civil rights issue. In *Olmstead v. L.C.*, 527 U.S. 581 (1999), the court determined that the unjustified institutionalization of people with disabilities violates the Americans with Disabilities Act of 1990. Division of Developmental Disabilities operations have been focused on enhancing services in community settings while reducing the use of developmental centers. As a result, the number of individuals in developmental centers has been reduced from 7,317 in 1980 to 1,058 in fiscal year 2023 while the number of developmental centers has been reduced from eleven to five. The cost per client has generally increased in each developmental center. Further consolidation efforts, such as moving the GBRC clients to the HDC, could result in a more efficient use of the centers.

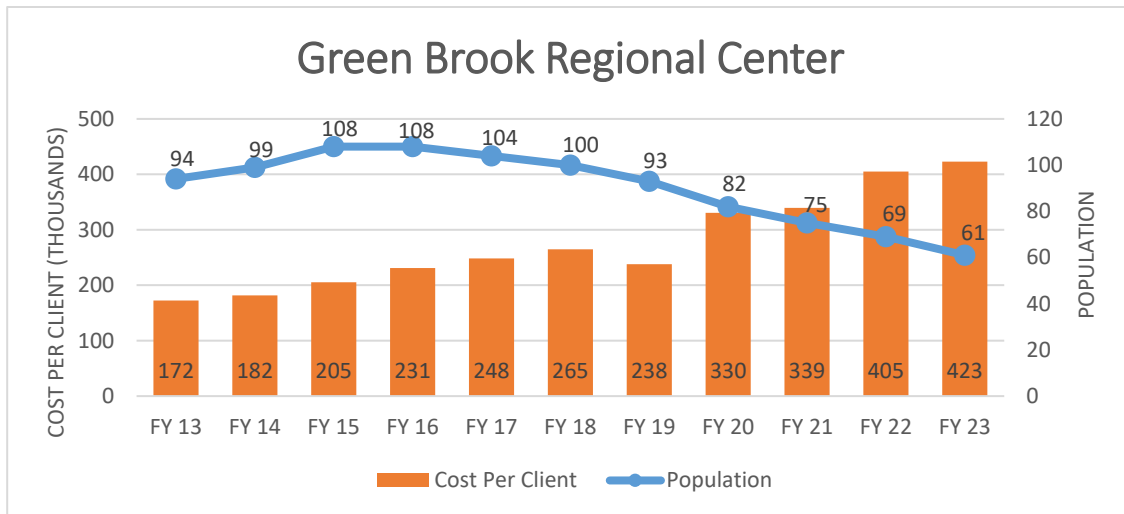
The following charts illustrate rising costs per client and declining populations at the state developmental centers.



Note: Various tranches of federal COVID-19 funding impacted department budgets and expenditures during fiscal years 2020, 2021, and 2022. As a result, some amount of fiscal years 2020, 2021, and 2022 costs are directly related to unanticipated expenditures in response to the pandemic. These increased costs should not be expected to continue indefinitely.

**ACCOMPLISHMENTS AND RESULTS
OTHER FINDINGS AND OBSERVATIONS OF INTEREST**

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
GREEN BROOK REGIONAL CENTER (continued)**



The GBRC, located in Green Brook, Somerset County, is a specialized geriatric center that serves residents over age 55. Residents of the center range from moderately to profoundly developmentally disabled, and most are non-ambulatory. The GBRC opened in 1981 in a three-story building that previously housed Raritan Valley Hospital. It is the smallest of the five remaining developmental centers, with 100 Medicaid certified beds. The GBRC population has declined from 94 clients in fiscal year 2013 to 61 clients as of June 2023. During the same period, the center’s average cost per client increased 145 percent from \$172,000 to \$423,000, the highest among the five developmental centers.

The HDC is the largest of all developmental centers. It is located in Hunterdon County, 26 miles west of the GBRC. It opened in 1969 and provides a broad spectrum of behavioral, medical, and habilitation services to individuals with intellectual and developmental disabilities. As of the end of our audit period, HDC had 465 Medicaid certified beds, a client population of 385, and 80 bed vacancies. Unlike the GBRC, the HDC houses clients in multiple, one-level living units that do not require the use of elevators. According to management, operational elevators are essential at the GBRC and are being renovated at an estimated cost of \$1.7 million

Additional capital improvements anticipated by the GBRC include the replacement of the main chiller and a secondary chiller at an estimated cost of \$1.8 million. The chillers have failed to operate consistently for years, and the GBRC has paid \$852,000 in rental and repair costs since fiscal year 2018.

**ACCOMPLISHMENTS AND RESULTS
OTHER FINDINGS AND OBSERVATIONS OF INTEREST**

**DEPARTMENT OF HUMAN SERVICES
DIVISION OF DEVELOPMENTAL DISABILITIES
GREEN BROOK REGIONAL CENTER (continued)**

In addition to capital improvements and maintenance cost savings, moving the GBRC clients to the HDC could potentially alleviate some of the GBRC \$699,000 average annual direct care overtime costs. When reviewing weekend overtime for eight pay periods from September 11, 2022 to December 31, 2022, we noted that 69 percent of overtime was prescheduled. The GBRC is the only developmental center required to provide direct care staff with every other weekend off.

ACCOMPLISHMENTS AND RESULTS OTHER FINDINGS AND OBSERVATIONS OF INTEREST

DEPARTMENT OF HUMAN SERVICES OFFICE OF PROGRAM INTEGRITY AND ACCOUNTABILITY OFFICE OF PERFORMANCE MANAGEMENT CRITICAL INCIDENT MANAGEMENT UNIT

Observations

Incident Reporting

Delays in incident reporting to the Critical Incident Management Unit (CIMU) can hinder timely investigations when required and pose risks to the health, safety, and well-being of recipients.

Attachment A of Administrative Order (A.O.) 2:05 categorizes incidents as Level A or Level B based on severity and the required timeliness of reporting. Level A incidents include, but are not limited to, physical abuse, verbal psychological abuse, sexual abuse, major or moderate injuries from physical assault, sexual assault, financial and personal exploitation, injury, elopement, and death. Those incidents must be reported to the Department of Human Services (department) as soon as possible and no later than the end of the business day. Level B incidents include, but are not limited to, minor injuries from physical assault, possession of contraband, criminal conduct, professional misconduct, rights violations, and overdose, and must be reported within one business day.

A business day is defined as Monday through Friday, 8:00 am to 6:00 pm, except state holidays. If an incident occurs on a weekend or holiday, reporting may take place on the next business day. If an incident falls into more than one level, it shall be assigned the higher reporting level. Any delay in incident reporting, regardless of reporting level, must be explained in the initial incident report. Level A incidents shall be entered into the New Jersey Incident Reporting and Management System (NJ-IRMS) upon receipt, and Level B incidents shall be entered by the end of the workday or as soon as possible on the next business day. The CIMU and the Division of Developmental Disabilities (DDD) are responsible for entering incidents into the NJ-IRMS.

In department facilities, community residential settings, or day programs serving recipients with developmental disabilities, service providers or facilities must notify a recipient's guardian in person or by phone within two hours of any major, moderate, or minor physical injuries related to incidents of abuse, neglect, or exploitation. This requirement also applies to any moderate or major injury, regardless of the cause. If guardian notification cannot be provided within two hours for a legitimate reason, notification must be provided within eight hours and a written explanation of the cause for the delay must be provided to the guardian and the department within 14 days. For all other reportable incidents, a recipient's guardian shall be notified within one business day of the incident. Notification to guardians shall be documented in the incident report. Any incident in violation of the New Jersey Code of Criminal Justice shall be reported to law enforcement authorities.

**ACCOMPLISHMENTS AND RESULTS
OTHER FINDINGS AND OBSERVATIONS OF INTEREST**

**DEPARTMENT OF HUMAN SERVICES
OFFICE OF PROGRAM INTEGRITY AND ACCOUNTABILITY
OFFICE OF PERFORMANCE MANAGEMENT
CRITICAL INCIDENT MANAGEMENT UNIT (continued)**

The CIMU reviews incident investigation reports on lower level of abuse, neglect, exploitation, professional misconduct, injuries, choking, physical assault, and contraband incidents from the DDD’s Office of Risk Management and the Division of Mental Health and Addiction Services (DMHAS). The Office of Program Integrity and Accountability’s (OPIA) Office of Investigations is responsible for conducting civil investigations and issuing findings based on a preponderance of evidence standard.

We obtained a database of all reported incidents for department developmental centers (DC), the DDD, and the DMHAS for the period of July 1, 2021 through January 31, 2024, which is summarized in the following chart:

	July – December 2021	CY 2022	CY 2023	January 2024	Totals	%
DC	702	1,502	1,369	143	3,716	6%
DDD	7,497	21,005	17,218	1,571	47,291	79%
DMHAS	1,771	3,654	3,186	295	8,906	15%
Totals	9,970	26,161	21,773	2,009	59,913	

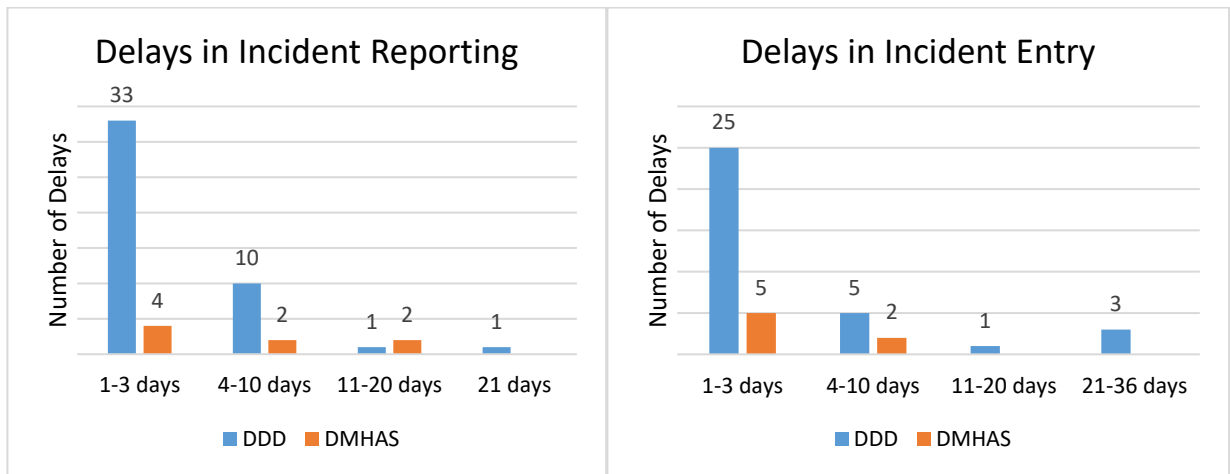
We randomly selected 75 incidents for review and noted the following issues regarding timeliness of reporting:

	Total Tested	Total Exceptions	Exception %
Incident was reported to the department timely	75	53	71%
Explanation of delay in reporting was documented	53	47	89%
Incident was entered into the NJ-IRMS timely	75	41	55%
One-day guardian notification	61	5	8%
Two-hour guardian notification	13	2	15%
Law enforcement notification	4	1	25%

**ACCOMPLISHMENTS AND RESULTS
OTHER FINDINGS AND OBSERVATIONS OF INTEREST**

**DEPARTMENT OF HUMAN SERVICES
OFFICE OF PROGRAM INTEGRITY AND ACCOUNTABILITY
OFFICE OF PERFORMANCE MANAGEMENT
CRITICAL INCIDENT MANAGEMENT UNIT (continued)**

The charts below show the number of delays in incident reporting and incident entry across different time intervals for the DDD and the DMHAS for the 75 tested incidents:



While the department cannot control the timely reporting of incidents, any delay in incident reporting can impact timely investigations and poses a risk to the health, safety, and well-being of recipients by preventing the department from issuing timely incident prevention recommendations and actions to minimize the risk to recipients.

ACCOMPLISHMENTS AND RESULTS OTHER FINDINGS AND OBSERVATIONS OF INTEREST

OFFICE OF INFORMATION TECHNOLOGY ELECTRONIC COST ACCOUNTING AND TIMESHEET SYSTEM (eCATS)

Change Management

The eCATS change control procedures should be improved, properly documented, and finalized.

According to the New Jersey *Statewide Information Security Manual (SISM)*, all technology changes to production environments must follow a standard process to reduce the risk associated with change. Agencies shall involve key business stakeholders in the change process to ensure changes are appropriately tested, validated, and documented before implementing any change in a production environment. Change control consists of a wide range of activities, including the establishment of a formal change management process; proper authorization and approval of all changes; development, documentation, and approval of comprehensive test plans; completion and review of all test results; and retention of an audit trail for all changes. The goal of change management is to prevent unauthorized or unnecessary changes, assess the impact of changes on the computing environment, and maintain necessary documentation of all changes.

Discussions with the Office of Information Technology (OIT) Change and Configuration management team found that the current change control policy for the eCATS contained outdated references and has not been formally adopted by the OIT. Therefore, the policy will have to be reviewed and updated before it can be implemented. Based on the *SISM* and the OIT draft policy, we identified criteria that constitute a strong change control process. We then tested ten changes against those criteria to determine the sufficiency of the eCATS change management process and found:

- All changes were missing evidence of a change request evaluation, a test plan, documentation of completed testing, logging of the date the change was made, and evidence of approval of the change;
- Six changes did not have an indication of the success or failure of the change in the tracking system, and;
- Three changes were missing information on the OIT custodian responsible for making the change.

Additionally, one change that was missing required items had to be backed out after completion because the requesting agency did not agree with the change. If this change had followed a formal documented change management process, the issues with the change may have been identified during the evaluation or testing phases.

**ACCOMPLISHMENTS AND RESULTS
OTHER FINDINGS AND OBSERVATIONS OF INTEREST**

**OFFICE OF INFORMATION TECHNOLOGY
ELECTRONIC COST ACCOUNTING AND TIMESHEET SYSTEM (eCATS) (continued)**

Sound change management provides strict controls over the implementation of system changes, thereby minimizing potential corruption to an information system. Inadequate controls over the development and modification of programs could result in improper or unauthorized changes being made to the production environment.

ACCOMPLISHMENTS AND RESULTS OTHER FINDINGS AND OBSERVATIONS OF INTEREST

DEPARTMENT OF THE TREASURY DIVISION OF TAXATION REMOTE SALES TAX

Transactional Nexus for Remote Sellers

New Jersey has not implemented the Streamlined Sales Tax (SST) best practice of eliminating the transactional nexus threshold to relieve the burden on small businesses.

The New Jersey sales tax law was amended effective November 1, 2018 requiring sales tax to be collected and remitted from remote sellers that have an economic nexus in New Jersey, which is established when a business reaches sales revenue of \$100,000 from the delivery of tangible personal property, specified digital products, or taxable services or at least 200 separate transactions sold into the state in the current or prior calendar year. New Jersey became a full member of the SST board in 2005.

The board adopted a best practice in May 2023 recommending states remove the number of transactions from the economic nexus calculation for remote sellers. However, New Jersey has not eliminated the 200-transaction nexus threshold as recommended by the board. We found 25 of the states that collect sales tax calculate their remote seller nexus strictly using a monetary economic threshold. Twelve of these states originally had a transactional nexus in their sales tax laws but have since eliminated the requirement in order to simplify sales tax compliance and lessen the burden on small businesses. Another state plans to eliminate the transactional nexus as of July 1, 2024.

Part of the mission of the division is to ensure compliance within the taxing statutes is achieved without being an impediment to economic growth. Low-dollar, high-volume sellers may be unduly burdened by the 200-transaction threshold, while high-dollar, low-volume sellers may be relieved from this burden. For example, a business selling one item into New Jersey for \$97,000 would not be required to remit sales tax. However, a business that has 250 separate sales transactions into New Jersey totaling \$1,250 would be required to remit sales tax.

During the June 14, 2022 U.S. Senate Finance Committee hearing on Sales Tax Post-Wayfair, small business owners and industry professionals testified to the high cost of compliance with remote sales tax laws. Two individuals testified that they incur annual expenses of close to \$50,000 in order to be in compliance with the law. Another individual testified that they have worked with clients who sometimes file monthly returns with remittances of less than \$1.00 in tax, while it can cost between \$25 and \$50 per return to file using a paid preparer. The compliance burden on low-dollar, high-volume businesses could disincentivize businesses to sell into New Jersey.

**OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2024**

TYPES OF FINDINGS

<u>REPORT</u>	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY/ EFFICIENCY</u>	<u>NONE</u>
Department of Community Affairs				
Division of Local Government Services	X	X	X	
Section 8 Housing Program				
Financial Data Schedules		Opinion Report		X
Department of Health				
Division of Certificate of Need and Licensing				
Certificate of Need Program	X	X		
Department of Human Services				
Division of Developmental Disabilities				
Green Brook Regional Center	X	X	X	
Office of Program Integrity and Accountability				
Office of Performance Management				
Critical Incident Management Unit				X
Department of Law and Public Safety				
Body Armor Replacement Fund				X
Department of Military and Veterans' Affairs				
New Jersey Veterans Memorial Home at Menlo Park	X	X	X	
Department of the Treasury				
Division of Taxation				
Remote Sales Tax		X	X	
Lakewood Public School District	X	X	X	
New Jersey Economic Development Authority				
Film and Digital Media Tax Credit Program		X	X	
Office of Information Technology				
Electronic Cost Accounting and Timesheet System (eCATS)	X	X		
Pinelands Commission				
Fiscal Year 2021		Opinion Report		X
Plainfield Public School District	X	X	X	

**OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING CALENDAR YEAR 2024**

<u>REPORT</u>	<u>TYPES OF FINDINGS</u>			
	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY/ EFFICIENCY</u>	<u>NONE</u>
Salem City School District	X	X	X	
South Jersey Transportation Authority				
Selected Programs	X	X	X	
State of New Jersey				
Annual Comprehensive Financial Report				
For the Fiscal Year Ended June 30, 2023		Opinion Report		X
Fund Balance Report as of June 30, 2023		Special Report		X
Report on Internal Control over Financial Reporting				
and on Compliance and Other Matters Based on an				
Audit of Financial Statements Performed in				
Accordance with <i>Government Auditing Standards</i>				X
Schedule of Benefit Claim Payments and Expenses				
Local Education Retired - For the Fiscal Year Ended June 30, 2023		Opinion Report		X
Schedule of Benefit Claim Payments and Expenses				
State Retired - For the Fiscal Year Ended June 30, 2023		Opinion Report		X