
**Annual Report of the New Jersey
Office of Legislative Services
Office of the State Auditor**

For the Calendar Year Ended December 31,



**2
0
0
1**

**Richard L. Fair
State Auditor**

LEGISLATIVE
SERVICES COMMISSION

ASSEMBLYMAN
JACK COLLINS
Chairman

SENATOR
DONALD T. DiFRANCESCO
Vice-Chairman

SENATE

BYRON M. BAER
JOHN O. BENNETT
GERALD CARDINALE
RICHARD J. CODEY
BERNARD F. KENNY, JR.
ROBERT E. LITTELL
JOHN A. LYNCH

GENERAL ASSEMBLY

PETER J. BIONDI
JOSEPH CHARLES, JR.
PAUL DIGAETANO
JOSEPH V. DORIA, JR.
NICHOLAS R. FELICE
NIA H. GILL
LORETTA WEINBERG



OFFICE OF LEGISLATIVE SERVICES

OFFICE OF THE STATE AUDITOR

125 SOUTH WARREN STREET

PO BOX 067

TRENTON NJ 08625-0067

ALBERT PORRONI

Executive Director

(609) 292-4625

RICHARD L. FAIR

State Auditor

(609) 292-3700

FAX (609) 633-0834

The Honorable Members of the Senate and General Assembly

Mr. Albert Porroni, 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 2001. In conformance with our responsibilities to perform financial and compliance audits, all state agencies are audited periodically. During 2001, we issued 48 reports which identified \$46.3 million in potential cost savings. 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 for public funds and to improve the operations of state 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 best 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 that we audit. We are committed to providing high quality audit reports. You may be assured that we will continue our efforts to improve state government accountability to the Legislature through an effective and constructive audit process.

Richard L. Fair
State Auditor
February 11, 2002

TABLE OF CONTENTS

Introduction

Background	1
Mission	2
Goals	2
Cost Savings	2
Schedule of Cost Reductions and Revenue Enhancements	3

Audit Reports

Types of Audits Performed	4
Distribution of Audit Hours	5
How and to Whom Audit Reports Are Issued	6

Organization

Human Resources	7
Audit Staff	7
Quality Assurance	7
Administrative Staff	8
Staff Roster	9

Accomplishments and Results

Summary	11
Department of Human Services, Division of Medical Assistance and Health Services, Selected Programs and Activities	12
Department of the Treasury, Division of Investment	14
Department of the Treasury, Board of Public Utilities	15
Town of West New York, Board of Education	16
Department of Education, Direct State Services	18
Department of Military and Veterans Affairs, New Jersey Veterans Memorial Home, Menlo Park	19
New Jersey Commission on Science and Technology	20

<i>Schedule of Reports Issued During 2001</i>	21
--	----

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 have been enacted in the ensuing years.

Currently, 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 his successor shall be appointed and qualified. On September 26, 1989, Mr. Richard L. Fair, CPA, was appointed State Auditor Designate and was confirmed by a joint session of the Legislature on March 15, 1990.

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 1, 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; to report to the Legislature or to any committee thereof and to the Governor, and to the Executive Director of the Office of Legislative Services, as provided or required by law; and to perform such other similar or related duties as shall, from time to time, be required of him by law.

The State Auditor shall personally or by any of his authorized assistants or by contract with independent public accounting firms, examine and post-audit all accounts, reports and statements and make independent verification of all assets, liabilities, revenues and expenditures of the state, its departments, institutions, boards, commissions, officers, and any and all other state agencies now in existence or subsequently created.

In addition, at the request of the Legislature or the Legislative Services Commission, the State Auditor conducts studies on the operation of state and state-supported agencies with respect to their economy, internal management control, and compliance with applicable laws and regulations.

INTRODUCTION

MISSION

The State Auditor is an officer of the Legislature, independent of the other branches of state government. Through independent audits of records kept by or for any state agency, the auditor gives the Legislature assurance that funds appropriated are properly spent, assets of the state are safeguarded, management is complying with applicable laws and regulations, and the state's financial statements are fairly presented. The auditor also performs related duties as required by law or requested by the Legislature.

GOALS

To enhance accountability of state agencies to the Legislature, providing assurance that funds appropriated are properly spent, assets are safeguarded, and management is complying with applicable laws and regulations.

To verify the assets, liabilities, revenues, and expenditures of the state.

To assist public officials in meeting their responsibilities of maintaining effective controls, safeguarding resources, complying with laws and regulations, and capturing and reporting reliable data.

To report to the governor any and all instances of unlawful acts exposed in the course of audits.

To improve state government operations by recommending changes to increase the economy, efficiency, and effectiveness of government programs.

COST SAVINGS

During calendar year 2001 we identified \$46.3 million in new cost reductions or revenue enhancements. The schedule of cost savings is presented on page 3.

**OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF COST REDUCTIONS AND
REVENUE ENHANCEMENTS
REPORTS ISSUED DURING 2001**

REPORT

**COST
REDUCTIONS**
(In Thousands)

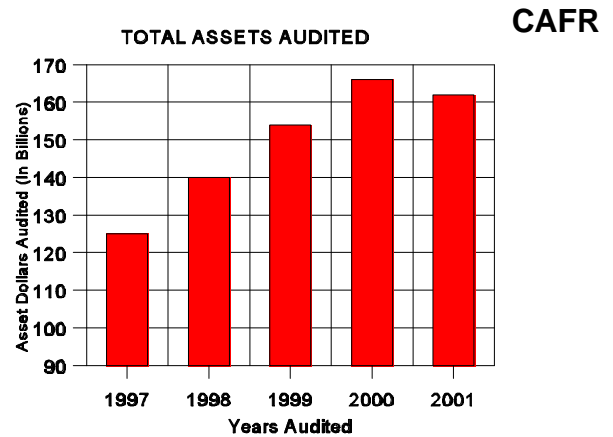
Department of Corrections	
East Jersey State Prison	\$ 18
Department of Education	
City of Millville Board of Education	71
City of Perth Amboy Board of Education	42
Direct State Services	400
The City of Orange Township Board of Education	41
Town of West New York Board of Education	575
Department of Human Services	
Division of Developmental Disabilities	
New Lisbon Developmental Center	30
Division of Medical Assistance and Health Services	
Selected Programs and Activities	22,690
Department of Military and Veterans Affairs	
New Jersey Veterans Memorial Home, Menlo Park	360
Department of the Treasury	
Board of Public Utilities	1,295
Division of Investment	20,382
Judiciary	
Child Support Enforcement Program	34
Marie H. Katzenbach School for the Deaf	29
New Jersey Commission on Science and Technology	<u>294</u>
 Total Cost Reductions and Revenue Enhancements	 <u>\$46,261</u>

AUDIT REPORTS

TYPES OF AUDITS PERFORMED

Financial Audits

Financial audits are designed to provide reasonable assurance about whether the financial statements (or schedules) 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 opinion on the state's *Comprehensive Annual Financial Report* (CAFR), which is issued by the Department of the Treasury. The CAFR engagement includes the audit of 198 funds, account groups, and component units which had a total asset value of \$162 billion at June 30, 2001.



Audits of Agencies

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. 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 department-wide because of their size and complexity. We performed 36 of these audits in calendar year 2001. These audits encompassed \$13.7 billion and \$2.3 billion of expenditures and revenues, respectively.

Information Technology Audits

The objectives of this type of audit are to determine whether the financial data relating to a particular computer system are reliable, valid, safeguarded and recorded properly. During calendar year 2001, we reported on two departmental computer applications and one state data center.

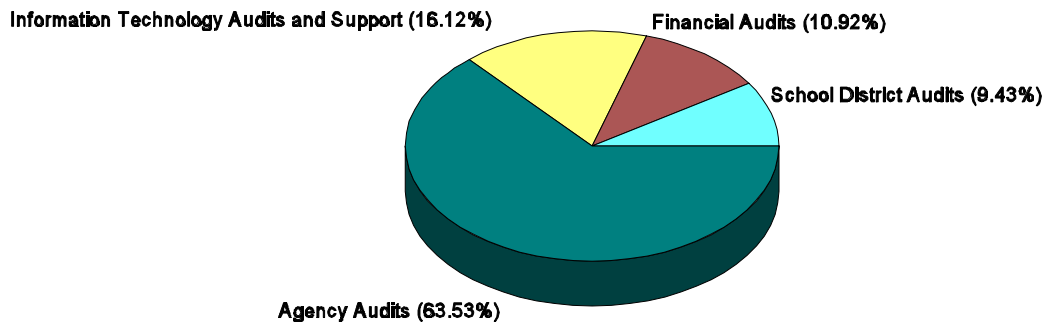
School District Audits

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. We audited 5 school districts in calendar year 2001. These audits encompassed \$315 million and \$168 million of expenditures and revenues, respectively.

AUDIT REPORTS

DISTRIBUTION OF AUDIT HOURS

The distribution of audit hours used in performing audits during calendar year 2001 is depicted on the following chart.



AUDIT REPORTS

HOW AND TO WHOM AUDIT REPORTS ARE ISSUED

The findings and recommendations in our reports are developed as a result of an independent objective audit and are intended to provide accountability to the legislature and recommendations for improvement of government operations. All reports issued are discussed with agency officials prior to finalizing the report. Modifications to the draft report are made if warranted. Agency comments to the final report are incorporated in the document. All issued reports of the Office of the State Auditor are public documents and since 1996 are available on the internet through the New Jersey Legislature's Home Page. Reports are statutorily required to be sent to:

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

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

- the management of the audited entity,
- the chairs of the Senate and General Assembly committees, and
- the State Library.

Finally, reports are placed on the internet at:

<http://www.njleg.state.nj.us/legislativepub/auditreports.asp>

ORGANIZATION

HUMAN RESOURCES

The Office of the State Auditor is one of seven units within the Office of Legislative Services. The State Auditor's office is comprised of 79 professionals and six support staff. All auditors must have a bachelors degree in accounting or a related field and a minimum of 24 credit hours in accounting. Forty-seven staff members (60 percent of the professional staff) possess professional certifications or advanced degrees.

The office provides a minimum of 40 continuing professional education credits annually 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 participated as officers, board members, and committee members of local, state, and national accounting and auditing organizations including the Association of Government Accountants, Institute of Internal Auditors, National State Auditors Association, and New York/New Jersey Intergovernmental Audit Forum. The office also participates in the national peer review program under the auspices of the National State Auditors Association.

AUDIT STAFF

The audit staff is the primary operating group of 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 the field staff.

The office maintains six active committees staffed by individuals in various titles to provide guidance in the areas of audit planning, information technology, personnel, policy, statistical sampling and training. An intranet site is also maintained that contains staff information, budget and appropriation information, and commonly used accounting and auditing research and reference internet sites which the audit staff can access through their computers.

QUALITY ASSURANCE

The quality assurance staff is responsible for technical compliance and quality control, oversight of staff training, and research of technical issues. Quality assurance is achieved through reviews of working papers and reports to ensure 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.

ORGANIZATION

ADMINISTRATIVE STAFF

The administrative staff processes, files, and distributes all reports. This group is responsible for maintenance of audit working papers, purchasing and maintaining office supplies, and other general administrative functions.

**OFFICE OF THE STATE AUDITOR
STAFF ROSTER
As of December 31, 2001**

STATE AUDITOR

Richard L. Fair, CPA, CGFM
Evelyn T. Boyer, *Administrative Assistant*

ASSISTANT STATE AUDITOR

Peter M. Guilfoyle, CPA
Joyce Kenney, *Secretary*

QUALITY ASSURANCE

ADMINISTRATOR

Thomas R. Meseroll, CPA, CGFM
Deborah S. Tucker, *Secretary*

AUDIT MANAGERS

Robert J. Alu, CFE, CGFM
Franklin F. Bowker, MBA, CPA
Elwood H. Fell, CGFM

Anthony J. Glebocki, CPA, CFE, CGFM
Richard Nicomini, CPA
James B. Patterson, CIA

Walter E. Sleccki, CGFM
Ronald E. Thompson, CIA
Jeannette Valentine, CFE, CGFM

PRINCIPAL AUDITORS

Salah Abdel-Motaal, MA
Paul R. Baron, CPA
Carol A. Combs, MS
Jerry A. Di Colo, MBA, CPA
Helen Dublas
Georgia M. Duval, CFE
Stephen M. Eells, CPA
Joseph O. Ettenger, CFE

Frederick S. Hansen
David J. Kaschak, CPA, CGFM
William Kowalski, CISA
Robert J. Malone, MBA
John Martyniuk
Gregory Pica, CPA
William D. Robinson, CPA
Thomas W. Siegfried

Susan M. Stradling, MS, CPA
John Termyna, CPA
Rose M. Todaro, CIA, CFE, CGFM
Thomas Troutman, CPA, CIA, CGFM
Edward J. Tyson
Robert D. Wills, CFE

AUDIT STAFF

Abdul-Rasak Adam
Edward A. Backer, CPA
Albert Bao, CPA
Ernest W. Barany, CPA
Harold Bauman
Patricia L. Birnie, CFE
Kenyon Booker
Christian J. Breza, MBA
Timothy D. Bush, CPA
John Coyle, CPA
Tanya Cuccia
George Derbaly, MS, CPA
Sean Duffy
Thomas M. Fenerty
Louis A. Finney, CFE

Robert F. Gatti
Kathleen Gorman
Richard Grahovac, CFE, CGFM
Barbara Jennings, CPA, CGFM
Kenneth Kramli, CPA
Anna Lorenc
Linda Maher, CGFM
Frederick W. Marsh, MBA, CFE, CGFM
Bruce L. Martin, CFE, CGFM
Melissa McCool
Kristen Menegus
Carrie L. Meyer-Still
Donna Mooney
Ann Moran
Cynthia Mount

Nadia Negro
Walter E. Obando
Stacy O'Brien, MBA, CPA
Deborah A. Peachey, CPA
Jennifer L. Phipps
Greta Pugh
Nikki M. Robinson
Chris Soleau
Donna M. Shemansky
Brian Sherfese
Jess Kim So
Stephanie Titus
Nelson E. Valosen
Patrick Whalin
John C. Wouters, CISA

ADMINISTRATIVE STAFF

Jean Horner

Elizabeth H. Klingele

Camille E. Thomas-Day



**ACCOMPLISHMENTS
AND RESULTS**

ACCOMPLISHMENTS AND RESULTS

Summary

This section highlights seven of the more significant audits issued during the past year which individually contained cost savings greater than \$290,000 and collectively totaled \$46 million. The Office also issued seven reports with individual cost savings less than \$290,000 totaling \$261,000. Our reports also 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 2001 are identified on a schedule on pages 21 to 23 and are available for review on our internet website.

Drug Discount Rate

The Division of Medical Assistance and Health Services' (division) reimbursement to the pharmacies for the cost of prescription drugs for a medicaid recipient is the average wholesale price of a prescription drug less a ten percent volume discount rate. The State of New Jersey, State Health Benefits Program, Employee Prescription Drug Plan reimbursement to the pharmacies for the cost of prescription drugs for state employees are the same average wholesale price of a prescription drug less a 13 percent volume discount rate. If the division received the same discount rate as the State Health Benefits Program, Employee Prescription Drug Plan, they could save approximately \$20 million annually.

Monthly Medicaid Cards

The division is spending over \$1 million for the current medicaid card system including monthly postage and production costs which could be significantly reduced if they switched to a more permanent identification card system. The division is discussing this issue; however, nothing has been finalized. The objective is to promote a low cost, reliable approach to support electronic provider inquiry into recipient eligibility. The new medicaid identification card system could be beneficial in that it could redirect staff for other activities.

Managed Care Enrollees with Multiple Recipient Numbers

Medicaid providers are paid by one of two methods: fee-for-service method, in which a provider is paid for each eligible service, and the capitation method, in which a managed care organization is paid a monthly fee based on the number and type of recipients enrolled in their plan. The managed care plan must provide health services to enrolled recipients when services are needed.

County welfare agencies and state contracted vendors are responsible for determining and terminating medicaid eligibility. The county welfare agencies are not adequately screening individuals for existing medicaid numbers. Often an individual's eligibility was established under a previous program and then the individual re-entered medicaid under another program and a new medicaid number was assigned without termination of the previous medicaid number. Our review of monthly prepared division reports noted more than 3,400 medicaid enrollees with two active recipient numbers, of which 1,200 have both managed care and fee-for-service coverage.

We found that the division potentially overpaid \$838,000 for the period July 1, 2000 to December 31, 2000 in fee-for-service claims that should have been covered by managed care plans. Provider claims for pharmacy, physician, and hospital services were submitted and paid for these individuals who possess multiple medicaid numbers.

Payment of Premiums Program

The Payment of Premiums (POP) program pays premiums for health insurance coverage for individuals on medicaid, so the division can avoid certain medical costs. Third party liability occurs when medicaid pays for charges of a recipient with other insurance that should have paid a portion of the medical bill. The recipient's insurance company would be responsible for the medical costs rather than the medicaid program. Recipients must be medicaid eligible and must provide verification of insurance coverage and premiums. Qualified recipients must submit proof of their insurance premium payment by providing a pay stub indicating the amount deducted from their pay for insurance, or an invoice from the insurance provider. This information is to be updated and resubmitted each time a reimbursement is to be made. We reviewed a sample of 328 transactions totaling \$860,000 and found that three recipients were improperly reimbursed for insurance premiums. These individuals were not eligible for reimbursement because there was no employee out-of-pocket expense associated with their insurance premiums. The division improperly reimbursed these individuals \$90,000 since fiscal year 1997. We also noted 144 instances where the POP program did not seek current premium verification to document the actual amount to be reimbursed.

These weaknesses occurred because the program receives all documentation directly from the recipient and uses this information to determine how much money will be reimbursed. Independent verification of the information is not being sought by the division either through the employer or the insurance provider to determine the amount that should be reimbursed.

Bank Custody

N.J.S.A. 52:18A-8.1 requires the State Treasurer to utilize only national banks with a principal office in New Jersey as custodians for the State's domestic and foreign securities. All the banks that the division previously contracted with for custodial services have merged or been acquired by out-of-state banks. The statute limits the ability of the State Treasurer to competitively bid for suitable custodial services and therefore to potentially reduce expenses. The Division of Investment (division) incurred \$4.5 million in custodial fees in calendar year 2000.

Additionally, the statute prevents the Division of Investment from taking advantage of potential opportunities that are common industry practice. For example, the division cannot lend its securities because physical custody would, in many cases, have to transfer to an out-of-state sub-custodian. The statute is silent regarding the use of out-of-state sub-custodians and has been interpreted by the division's legal counsel as not being permitted by the statute. Even with a revision in the law, any investment areas not currently permitted by the administrative code would have to be approved in advance by the State Investment Council. A recent study by an industry specialist has estimated that New Jersey's portfolio could generate an additional \$20 million - \$40 million per year through securities lending.

Soft Dollars

The division paid commissions of approximately \$33 million during fiscal year 2000 for securities transactions. The division frequently enters into soft dollar arrangements with its brokers. Under these arrangements, the division purchases trade execution and other services related to investment management as a package. We noted the division is also procuring research related services and financial data with state appropriations. These services are available through brokers and can be paid with soft dollar commissions. We identified \$382,000 in research related services and financial data that can instead be paid using soft dollar arrangements. These services would be allowable under section 28(e) of the Securities Exchange Act of 1934 which defines allowable uses of soft dollars.

Federal Cash Management

The Division of Energy Planning and Conservation incurred \$1.3 million in federal program expenditures between July 1999 and January 2001; yet only \$105,000 was reimbursed from the federal government. Included in the \$1.3 million are recoverable employee benefit costs of over \$100,000 which should be charged to the division's federal accounts. The grant agreements allow for reimbursement through a letter of credit. This method permits and requires the Board of Public Utilities (BPU) to make its own drawdown of federal funds as cash disbursements are made. Proper cash management procedures serve to reduce the time between the disbursement and receipt (drawdown) of federal funds in order to make funds available for state use.

This condition was noted in our prior audit of the BPU which covered the period July 1, 1994 to January 31, 1996. The board's response stated that the agency has already initiated steps to reduce the amount of time between periodic drawdowns of federal funds. It was also noted that during the prior audit period the BPU experienced many delays in coordinating with the federal agency as a result of regional reorganization and transfer of program responsibilities to other regions.

Computer Purchasing

During school year 2000, the district spent \$ 721,000 on computer purchases from one vendor. The Town of West New York Board of Education awarded a bid to supply the district with approximately 100 standard student computers for \$954 per unit. Management uses the bid in lieu of a contract with the vendor. In the bid general specifications, the board reserves the right to increase the quantity by 20 percent. The district purchased 246 standard student computers, 106 other computers, and 206 printers. In addition, the district purchased from the same vendor \$218,000 worth of parts, software and wiring services. There was no competitive bidding required for the purchases above and beyond the original bid specifications, although the purchase amount increased from the original award.

While the bid's general specifications requires all items to be of "first grade" unless otherwise specified, a study of PC service performance and reliability by a leading computer publication revealed that the computer brand name supplied to the district ranked only fair and not outstanding or good. In a comparison of prices, we noted that for an extra \$112 per unit the school district could have obtained the excellent ranked brand name. During our visit to the schools, we were told that out of 20 computers received, 18 of them broke within the first two weeks, and on the second order of 20 computers, all arrived with hard drives that did not function.

The same vendor was given another bid for \$17,500 for computer software and overbilled the district \$3,100 for services included in the detailed bid specifications.

The district also purchased five computers, nine printers, and three software packages and paid \$16,200 for these items. The invoice project name was "Board's Attorney". The board's attorney is an independent law firm.

School Maintenance Contracts

West New York School District spent \$486,000 and \$496,000 in school years 2000 and 1999, respectively for night cleaning services of schools, administrative building, and the district's Childhood Center.

We noted in our review of the above expenditures that the vendor was overpaid \$44,000 and \$41,000 in school years 2000 and 1999, respectively for separately billed services that were included as part of the original contract specifications. In addition, school year 1999 payments exceeded the original contract bid amount by \$71,000. The propriety of school year 2000 payments could not be verified as a copy of the contract was not provided. All invoices submitted for the services within the contract were dated at the beginning of the month before the services were rendered. Eleven checks in school year 1999 and nine in school year 2000 issued by the district were dated and cashed before the services were provided. The above prepayments were made in violation of the district's purchasing policy

which states that the payment to a vendor should be made upon receipt of services.

In addition to the above services, the district employs 43 custodians whose responsibilities include housekeeping and landscaping functions and who, according to the custodial union agreement, can be assigned to variable work shifts per the district's discretion. Total square footage of the district operated buildings amounts to 818,595. Using for comparative purposes the standards set by the American School and University Magazine, the average for the New York and New Jersey region of 17,760 square feet per custodian, the district should only need three more custodians to provide all the district's necessary cleaning services. Employing three additional custodians including salary and benefits and ceasing services of the maintenance vendors could save the district approximately \$400,000 annually.

Grant Recoveries

Treasury Circular Letter 89-19-OMB states that grantees will refund to the department any unexpended funds or unobligated cash advanced, unless the department has authorized the retention of such funds. We found that 8 of 14 sample school districts with June 30, 1999 unexpended grant funds of \$400,000 had not been billed for these amounts by the department as of January 31, 2001.

The grant program which makes up most of the unbilled balance is Teachers' Pension and Annuity Fund Social Security, which is administered by the School Finance Unit. This balance has not been collected because the school district had not reported to the department that it was overpaid. However, this information was available to the department in the school district's single audit report.

Rent Charges and Monitoring

New Jersey Administrative Code Title 5A, under the authority granted the Adjutant General in Title 38A of the New Jersey Permanent Statutes, establishes the criteria for admission eligibility, admission review, and computation of the care and maintenance fee for New Jersey veterans' facilities. The New Jersey Department of Military and Veterans Affairs annually determines the maximum daily rate charged for care and maintenance, which should be approved by the Director of Budget and Accounting in the Department of the Treasury. After allowing for federal Veteran Administration's per diem rate of \$51.38, the monthly maximum rate is approximately \$2,900. The monthly recovery amount is based upon 80 percent of the resident's monthly income. Applicants for residency may have allowable assets up to \$15,000 (single) or \$40,000 (married). An applicant's home is not part of this asset measurement. Assets exceeding these parameters are spent down by charging the care and maintenance maximum rent. After admission, the resident may accumulate an additional \$5,000 in assets. The code requires an annual review of a resident's fee determination and states, when assets exceed the allowable maximum, residents will be billed at the highest allowable rate until the allowable asset level is reached. The veterans home collects approximately \$3 million annually from its residents. Based on our review of the department's calculation of the resident's daily care rate, we determined that employee fringe benefits are not incorporated in the rate. The Department of Military and Veterans Affairs decided not to include the cost of fringe benefits in the rate calculation in fiscal year 1996. If the department includes fringe benefits, annual rent revenues could increase by as much as \$360,000. An increase in the daily care rate will only affect residents charged the maximum care and maintenance rate, approximately 30 of 260 residents. In addition, the daily care rate is not being approved annually by Director of the Division of Budget and Accounting in the Department of the Treasury.

Early Stage Enterprises

In 1995, in response to a lack of venture capital, the New Jersey Commission on Science and Technology (commission) initiated a venture capital fund to target New Jersey companies. The Early Stage Enterprises Limited Partnership (ESE) was created to leverage \$4.3 million of state funds into approximately \$30 million through joint investments with private industry and the federal Small Business Administration.

The request for proposals for a general partner to manage the fund indicated that companies eligible for investment must be located in New Jersey. Early Stage Enterprises' proposal stated that it was committed to making all of its investments in New Jersey companies. The commission entered into a limited partnership agreement with Early Stage Enterprises in December 1996 and committed \$4.3 million to the fund. The Agreement of Limited Partnership, however, made no reference to whether or not the fund must invest in New Jersey companies, even though this was the purpose for appropriating the funds. As a result, only six of the seventeen companies in the portfolio as of March 31, 2001 were located in New Jersey. The other eleven companies were located in Connecticut, Maryland, New York, Pennsylvania, and Virginia. These are states that New Jersey is in direct competition with for start-up companies. It would seem prudent for the commission to prioritize investment in New Jersey companies instead of just investing.

Our review further noted that to provide funding the commission entered into an escrow agreement with Early Stage Enterprises. The commission placed \$4.3 million into an escrow account from which Early Stage Enterprises has been drawing down funds as needed. The escrow agreement requires that Early Stage Enterprises remit to the commission, no less than once a year, all amounts earned on escrowed funds. As of June 30, 2001, the commission had not received any interest payments even though the accumulated interest totaled \$294,000.

**OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING 2001**

<u>REPORT</u>	<u>TYPE OF FINDINGS</u>		
	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY</u>
AccessDMV Online Application	NO FINDINGS REPORTED		
Casino Control Commission and the Department of Law and Public Safety Division of Gaming Enforcement	NO FINDINGS REPORTED		
Department of Agriculture		X	
Department of Community Affairs Selected Programs	X	X	
Department of Corrections East Jersey State Prison Mid State Correctional Facility Mountainview Youth Correctional Facility		X	X
		NO FINDINGS REPORTED	
		NO FINDINGS REPORTED	
Department of Education City of Millville Board of Education The City of Orange Township Board of Education City of Perth Amboy Board of Education Direct State Services North Hanover Board of Education State Aid Town of West New York Board of Education	X X X	X X X X X X	X X X X X
Department of Human Services Division of Developmental Disabilities New Lisbon Developmental Center Division of Medical Assistance and Health Services Selected Programs and Activities Division of Mental Health Services Arthur Brisbane Child Treatment Center	X X	X X X X	 X
Department of Labor Employer Accounts System		X	
Department of Law and Public Safety Juvenile Justice Commission	X		X
Department of Military and Veterans Affairs New Jersey Veterans Memorial Home, Menlo Park	X		X

**OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING 2001**

<u>REPORT</u>	<u>TYPE OF FINDINGS</u>		
	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY</u>
Department of Personnel	X		
Department of State			
Selected Programs		X	X
Department of Transportation			
Employee Time Reporting		X	
New Jersey Transportation Trust Fund Authority			
Appropriations	NO FINDINGS REPORTED		
Department of the Treasury			
Board of Public Utilities		X	X
Division of Investment	X		X
Division of Purchase and Property			
Distribution Center		X	
Division of the Ratepayer Advocate	NO FINDINGS REPORTED		
Division of Revenue		X	
Interstate Environmental Commission	SINGLE AUDIT REPORT		
Judiciary			
Administrative Office of the Courts			
Judiciary Bail Fund	NO FINDINGS REPORTED		
Child Support Enforcement Program		X	X
Superior Court of New Jersey			
Camden Vicinage	X	X	
Ocean County Vicinage		X	
Marie H. Katzenbach School for the Deaf		X	
New Jersey Commission on Science and Technology	X	X	
New Jersey Comprehensive Annual Financial Report	OPINION ONLY		
New Jersey Economic and Development Authority			
Selected Programs	NO FINDINGS REPORTED		
New Jersey Medicaid Management Information System		X	

Office of Information Technology

OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF REPORTS ISSUED DURING 2001

<u>REPORT</u>	<u>TYPE OF FINDINGS</u>		
	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY</u>
HUB and River Road Data Centers		NO FINDINGS REPORTED	
Pinelands Commission		SINGLE AUDIT REPORT	
The Richard Stockton College of New Jersey		NO FINDINGS REPORTED	
State Lottery Fund		OPINION ONLY	
State of New Jersey			
Division of Pensions and Benefits			
Combined Financial Statements		OPINION ONLY	
Report on Compliance and Internal Control Related to our Audit of the State's Comprehensive Annual Financial Report		X	
State Parole Board		NO FINDINGS REPORTED	
Thomas Edison State College and the State Library			X