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

For the Calendar Year Ended December 31,



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**Richard L. Fair
State Auditor**

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New Jersey State Legislature

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OFFICE OF THE STATE AUDITOR

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Executive Director

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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 Office of Legislative Services, Office of the State Auditor* for 1999. In conformance with our responsibilities to perform financial and compliance audits, all state agencies are audited periodically. During 1999, we issued 46 reports, which identified \$14 million in potential cost savings. In addition, the state continues to save substantial dollars as a result of 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.

A handwritten signature in cursive script, appearing to read "Richard L. Fair".

Richard L. Fair

State Auditor

February 10, 2000

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INTRODUCTION

BACKGROUND

The Office of the State Auditor, which is in the legislative branch of government, was originally established in 1934 pursuant to P.L. 1933, c.295. A number of statutory amendments dealing with the powers and duties of the State Auditor 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 the state government and 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 1999 we identified \$14 million in new cost reductions or revenue enhancements. The schedule of cost savings is presented on page 3.

PROFESSIONAL STANDARDS

The Office of the State Auditor's audits are performed in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States. In 1999, the National State Auditor's Association conducted a review of our system of quality control. The results of this review are presented on page 4.

OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
SCHEDULE OF COST REDUCTIONS AND
REVENUE ENHANCEMENTS
REPORTS ISSUED DURING 1999

REPORT

COST
REDUCTIONS
(In \$000)

Department of Corrections	
Garden State Youth Correctional Facility	\$ 550*
Department of Education	
Boards of Education	
City of Camden	2,943*
Pleasantville	40*
Keansburg Borough	103*
Bridgeton	43
Trenton	2,031*
City of Paterson	445*
Asbury Park	1,116*
Department of Environmental Protection	
Natural and Historical Resources - Selected Programs	36*
Department of Human Services	
Division of Developmental Disabilities, Community	
Programs - Grants-In-Aid	156*
Ann Klein Forensic Center	200
Department of Law and Public Safety	
Division of Criminal Justice - Seizure and Forfeiture Fund	160*
Department of Military and Veterans' Affairs	
Selected Programs	5
Department of Transportation	
Division of Motor Vehicles	200
Department of the Treasury	
State Health Benefits Program	3,413*
Judiciary, Administrative Office of the Courts	
Administration	60*
Mercer Vicinage	430
Passaic Vicinage	400
Selected Funds	157*
Juvenile Justice Commission	
New Jersey Training School for Boys	20*
New Jersey Public Broadcasting Authority	<u>1,658*</u>
Total Cost Reductions and Revenue Enhancements	<u>\$14,166</u>

*Annually

National State Auditors Association

May 24, 1999

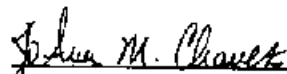
Mr. Richard L. Fair
State Auditor
Office of Legislative Services
Office of the State Auditor
125 South Warren Street
P.O. Box 067
Trenton, New Jersey 08625-0067

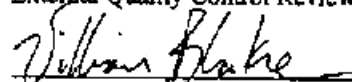
Dear Mr. Fair:

We have reviewed the State of New Jersey, Office of the State Auditor's system of quality control. The purpose of our review was to obtain reasonable assurance of the State of New Jersey, Office of the State Auditor's compliance with government auditing standards. This review included all audit reports issued from May 1, 1998 through April 30, 1999. We conducted our review in accordance with the policies and procedures for external quality control reviews established by the National State Auditors Association (NSAA). Our review included tests of selected audit engagements for compliance with the State of New Jersey, Office of the State Auditor's quality control policies and procedures as deemed necessary in the circumstances.

In performing our review, we considered the general characteristics of a system of quality control as described in the external quality control review guidelines issued by NSAA. Such a system should be appropriately comprehensive and suitably designed in relation to the State of New Jersey, Office of the State Auditor's organizational structure, its policies, and the nature of its functions. Because individual performance can vary in any state audit organization, adherence to all policies and procedures may not be possible in every case. However, adherence to prescribed policies and procedures is expected in most situations.

In our opinion, the State of New Jersey, Office of the State Auditor's system of quality control for audits issued from May 1, 1998 through April 30, 1999 was operating effectively and provided reasonable assurance of compliance with generally accepted government auditing standards.


Team Leader
National State Auditors Association
External Quality Control Review Team


Concurring Reviewer
National State Auditors Association
External Quality Control Review Team

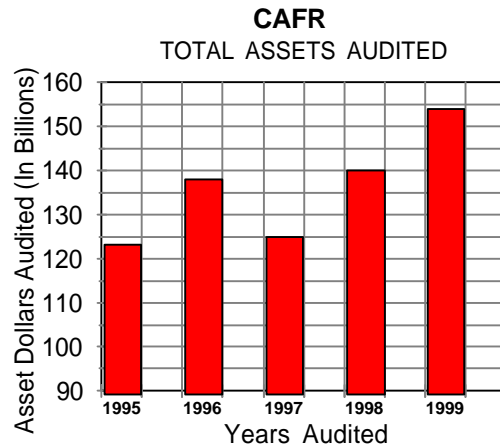
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AUDIT REPORTS

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 189 funds, account groups and component units which had a total asset value of \$154 billion at June 30, 1999.



Audits of Agencies

The objectives of this type of audit are to determine whether financial transactions were related to an agency's programs, were reasonable, and were 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 departmentwide because of their size and complexity. We performed 26 of these audits in 1999. These audits encompassed \$6.9 billion and \$2.5 billion of expenditures and revenues, respectively.

Electronic Data Processing 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 1999 we reported on two departmental computer systems and reviewed the state's Year 2000 compliant efforts.

Statutory Audits, Legislative Requests and Special Audits

Certain legislation mandates that the State Auditor will audit a specific program or fund on a periodic basis. 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 budget year. We audited 12 school districts in 1999. These audits encompassed \$1.4 billion and \$200 million of expenditures and revenues, respectively.

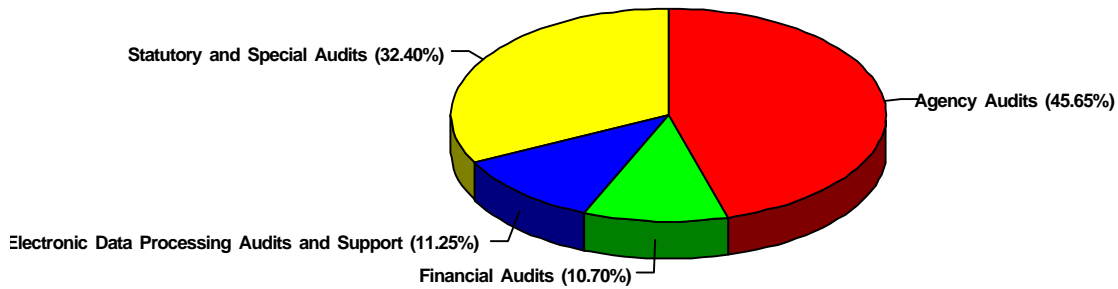
AUDIT REPORTS

Statutory Audits, Legislative Requests and Special Audits (Continued)

The Legislature may also request the State Auditor to conduct an audit or the State Auditor may decide to perform an audit of areas that cross departmental lines or are of specific concern. In 1999 we completed a performance audit of the Department of Labor, Workforce Development Partnership Program.

During calendar year 1999, the distribution of audit hours used in performing these audits is depicted on the following chart:

DISTRIBUTION OF AUDIT HOURS



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 1997 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/html/olsaudit.htm>

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 77 professionals and seven support staff. All auditors must have a bachelors degree in accounting or a related field and a minimum of 24 credit hours in accounting. Fifty-one staff members (66 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, The Institute of Internal Auditors, The National State Auditors Association, and The 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. This also ensures all programs are audited within a reasonable cycle. EDP support is also provided by the field staff.

QUALITY ASSURANCE

The quality assurance staff is responsible for technical compliance and quality control, staff training, research of technical issues, and the Office of the State Auditor's intranet site. 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. The intranet site 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.

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, 1999**

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*

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Jean Horner

Camille E. Thomas-Day
Elaine Zielinski



**ACCOMPLISHMENTS
AND RESULTS**

ACCOMPLISHMENTS AND RESULTS

Summary

This section highlights nine of the more significant audits issued during the past year which individually contained cost savings greater than \$400,000 and collectively totaled \$13.0 million. The Office also issued 12 reports with individual cost savings less than \$400,000 totaling \$1.1 million. 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 1999 are identified on a schedule on pages 24 to 28, and are available for review on our internet website.

Year 2000 Computer Issue

Governor Whitman recognized the seriousness of the year 2000 computer issue by appointing a coordinator who reported directly to the state's Chief Information Officer. The coordinator was charged with ensuring that all state departments and agencies were actively working together to detect and effectively address this issue. Among the efforts undertaken or coordinated through that office were identification of state critical systems, development of testing protocols, and preparation of contingency plans in the event of unanticipated failure.

To monitor the adequacy of these efforts, we looked at the state's approach to the remediation effort and tested progress through the various stages of their approach for all critical areas. We interviewed key personnel as to the awareness, assessment and planning that was done; examined inventories and rankings of applications; reviewed databases of facilities and related tracking of work on embedded systems; examined documentation of remediation and testing; and evaluated the reporting and management process. In the course of our work, we found areas that needed greater attention to help assure that the chance of year 2000 disruptions could be kept to a minimum. The coordinator and CIO's office were prompt in addressing the areas we brought to their attention.

Termination of Health Benefits

Local Employers

We found 23 former employees that remained on the State Health Information Processing System (SHIPS) as active employees after terminating their employment. The errors noted were for two relatively large employers with over 3,000 employees. The total estimated cost to these two local employers, based on the error rates found of approximately two percent, is \$800,000 annually.

State Employees

We found 61 state employees, who are paid on a bi-weekly basis, that should have been removed from SHIPS. The total billings to the state General Fund for these individuals after their eligibility ended was \$300,000.

Tests of state employees, who are paid on a monthly basis, revealed additional terminations that had not been reported and/or recorded. We found 101 ineligible current and former employees still listed as active members of the State Health Benefits Program (SHBP). Many had been ineligible since January 1, 1995. The cost of premiums paid by the state to the SHBP for these ineligible members was more than \$1.2 million.

Retired Employees

Retired state employees are still listed as active employees on SHIPS. We tested the employment record of 100 state employees listed on SHIPS as receiving both active and retired coverage. Five of the employees tested were retired, but their active coverage was never terminated. The cost of the premiums for the active coverage for the five retired employees was \$25,000 through the end of our fieldwork.

Match of SHIPS with Death Records

As part of our test of eligibility, we matched the active participants in the State Health Information Program System (SHIPS) to the Department of Health and Senior Services, Vital Statistics death records for the last three calendar years. The purpose was to determine if any names on the death records were still listed as active employees on the health benefits system. Seventeen deceased employees had not been removed from the SHBP. State or local employers had paid a total of \$88,000 in health benefit premiums for the deceased individuals. Three of the former employees should have been removed from the SHBP over two years ago. Thirteen of the exceptions noted have been recorded as deceased on the Division of Pensions account history system. The pensions and health benefits programs are part of the same division.

Employees/Retirees with Dual Coverage

When a state or local employee retires after 25 years of service, they may be entitled to health benefits at no cost to the former employee. If a retiree is rehired by a state or local government that participates in the SHBP they are, by law, entitled to be enrolled in active coverage in the program. As a result, these employees receive two sets of health benefits, one paid by the retirement system and one through their active employment. There were 212 people enrolled in the State Health Benefit System who had dual coverage. The dual coverage does not give the employees any significant additional benefit, but costs the state and local government employers approximately \$1 million a year in premiums.

Holiday Pay

Pursuant to their contract, custodians receive double time for holiday pay. Eight hours of holiday work is reported as 16 hours by the clerk in charge of custodial overtime. The form used to report these hours automatically computes the total pay at time and a half. This results in a holiday pay rate of triple time. Additionally, if a holiday occurs during the regular work week, the employee is paid for eight hours at the regular rate combined with the triple time reported for holiday overtime, resulting in a total payment of four times the regular rate. This practice resulted in excess payments of \$100,000 annually.

Termination of Health Benefits

We found names of former employees still receiving health coverage paid for by the City of Camden Board of Education (CCBOE). We examined 3,573 (100 percent) of the names on the State Health Benefits Program roster and found 33 errors. Most were former employees still listed as active employees. One former employee was terminated in 1989 and the CCBOE has paid premiums for 117 months at a cost of more than \$40,000. Total overpayment of premiums for the errors noted is over \$200,000.

A sample of employees receiving prescription drug benefits was also tested. The plan includes approximately 3,750 active employees and cost \$4 million for school year 1998. We tested 940 enrollees and found 53 former employees still enrolled, an error rate of 5.6 percent. Projecting this error rate to the total employees enrolled in the prescription plan, the CCBOE is paying an estimated \$230,000 annually for prescription drug premiums for people who are no longer eligible.

Prescription Drug Program

The CCBOE prescription drug plan is managed by a private company that was awarded the contract on an annual basis beginning in July 1997. The per employee rate charged for the prescription drug program was \$103 per month regardless of the level of coverage (e.g. single, married, etc.). Using the enrollment data for the State Health Benefits Plan (SHBP), we computed the cost of the current prescription drug plan compared to the premiums charged for the SHBP prescription drug plan. Based on enrollment of 3,573 employees, the CCBOE could save \$780,000 annually by changing its prescription coverage to the SHBP.

Vision Care Benefit Plan

The employment contract between the CCBOE and its employees states that optical insurance coverage will be provided by the board. The board provides vision care through Vision Service Plan (VSP), a private insurance provider. The total annual cost is \$278,000 (\$6.50 per member per month). The managed health care plans, in which all but 670 employees are enrolled, provide vision care benefits at no additional cost to the board. All of these plans and VSP allow for periodic routine eye exams and discounts on glasses and contact lenses.

The board could save \$220,000 annually if employees use the vision care benefit which is provided by the managed health care plans. Coverage would still be required for the 670 employees and their dependents not covered through their health insurance plans.

Custodians

The average payroll cost (including fringe benefits) for custodial staff for the New Jersey and New York region was \$1.81 per square foot. When applied to the square footage in all board operated buildings of 2.6 million, the total custodial cost should be approximately \$4.6 million. The actual cost for custodial payroll in Camden is \$6.1 million. By staffing its custodians at a level closer to the standards, the CCBOE could save at least \$1 million.

Custodians also serve as night watchmen in the Administration Building and three other locations. Most of the buildings have burglar alarms and surveillance cameras and the use of night watchmen was eliminated in these buildings. The Jerrothia Riggs Adult Education Center has both of these types of security, but continues to be staffed by watchmen. The salary cost for the three watchmen in April 1999 at the Riggs Center was \$6,700 or an annual cost of approximately \$80,000.

Tuition Reimbursements

Tuition payments made to employees not meeting employment and grade requirements were not identified and recouped. Of 18 payments tested, 12 payments totaling \$6100 were not refunded to the CCBOE when resignation came prior to meeting the subsequent employment requirement.

Travel and Gasoline Allowance

The purchase of a premium unleaded gasoline cost the board \$7,000 more annually than regular unleaded gasoline.

Substitute Teachers

Substitute teachers are employed to fill in for regular teachers who are not available to cover their classes. The substitutes are paid at a rate of \$70 to \$100 per day based on experience and level of education. The CCBOE also applies this rate of pay to holidays, if the substitute works the day before and the day after the holiday. During fiscal year 1998, we noted \$10,260 in payments to substitute teachers for holiday pay, in spite of the fact that there is no written policy providing for this type of compensation.

Hydromagnetic System

The CCBOE contracted with a vendor to provide magnetic devices that would be attached to the pipes in the boilers and cooling towers in the schools to prevent and remove the build up of deposits in the systems. The devices were installed in 17 schools and the administrative building at a total cost of \$310,000. The devices installed in Camden are comprised of a series of magnets that are attached to the pipes and covered with duct tape. Based on our research, the effectiveness of these types of systems is not conclusive.

Pursuant to N.J.S.A. 18A:18A-3, all purchases over \$12,900 are subject to advertised bidding regulations. There were no bids or price quotes obtained. The statute lists some reasons why the schools may not have to get bids including "extraordinary unspecifiable services." The statute defines these as services which cannot be reasonably described by written specifications. In addition, the statute states, "...the board of education shall in each instance state supporting reasons for its action in the resolution awarding the contract for extraordinary unspecifiable services.." No specific reason for not obtaining bids was provided to us by the CCBOE. When we reviewed the official board minutes for the meeting when the purchase order was paid, we found no approval of the contract by the elected board members.

Using the Internet, we found two other vendors selling these types of devices. One vendor has been in business for 27 years. The vendor we contacted sells the devices for approximately \$2,000 per inch in diameter of pipe. The CCBOE paid \$30,000 for one magnetic device on an eight-inch pipe. The device from the vendor we contacted consists of magnetic rods encased in stainless steel and would sell for approximately \$16,000.

Reported benefits of the magnetic systems are to eliminate the need for using chemicals in the boiler systems and reduce maintenance costs. We observed three schools where chemicals are still being used in the boiler systems that had the magnetic systems installed. These chemicals perform the same function as the magnets and both should not be necessary in the same system.

Medical Billings

The district provides health, prescription and dental coverage for its full-time employees and their dependents through contracts with various private health insurance companies. The total annual costs of the medical and dental plans are \$12.6 million and \$1.2 million, respectively. Each company bills the district monthly for the costs of premiums and submits a list of employees enrolled in its plan. The district relies upon its insurance broker to maintain its health benefits rosters and to review bills from insurance companies. No oversight is performed by the district. On a monthly basis, the broker provides a memo to the Assistant Superintendent of Human Resources stating that the bills have been reviewed and can be processed for payment. Our review of the district's insurance bills revealed that the district has been overpaying for its employees' medical coverage.

We compared the June 1999 monthly lists sent by the insurance carriers with the district's June payroll register and found 1,365 errors which resulted in a monthly overcharge to the district of \$165,000. The total annual overcharge to the district could be \$2 million. The primary error found were subscribers who were not on the district payroll. The district also paid for dual coverage for its employees in some cases.

Eligibility for Incentive Plan

The Trenton Board of Education adopted an Attendance Incentive Payment of Accumulated Sick Leave Plan in 1999 for members of the Trenton Administrators and Supervisors Association, the Trenton Education Association, and the Paraprofessional Unit. The plan provided employees with at least 20 years of full-time service with the Trenton School District double the amount normally paid for accumulated sick leave. The total cost of the plan is \$4.3 million, to be paid out over four years. Our review of recipient eligibility for the plan found two retirees who were not eligible because they had been employed by the district for less than 20 years. These two employees received an additional \$30,600 in incentive pay because they were improperly included in the plan and because of calculation errors in determining their payout.

Unremitted Funds

The Foundation for New Jersey Public Broadcasting's accounting records reported a balance of \$1.65 million owed to the authority at June 30, 1998. The foundation had sufficient funds available in investments and demand accounts to satisfy this obligation. As of August 31, 1998 the foundation had not satisfied this obligation. In accordance with N.J.S.A. 48:23-17 "All funds received by the Foundation for New Jersey Public Broadcasting, other than those necessary to pay for the expenses of the foundation, shall be used exclusively for the support and promotion of the New Jersey Public Broadcasting Authority and its several purposes." The Foundation should have paid this balance to the Authority.

Controls

Treasury Circular Letter 96-23-GSA, specifically states "If the items required are stocked at the State Distribution Center or are available through DEPTCOR or CNA, neither Delegated Purchase Authority (DPA) nor term contracts may be utilized to procure those items." Term contracts are to be used if items are not available at DEPTCOR or the Distribution Center. Only then should DPA be used. We found that the authority did not comply with the circular letter regarding the use of Delegated Purchase Authority in 48 percent of the disbursements (\$1.7 million) during fiscal year 1998 through February 1998. The authority did not check availability or purchase items from the Distribution Center. Nor did they use term contracts. In our sample of \$179,000 we found that the authority could have saved approximately \$8,000 if term contracts were utilized. Additional monies could have been saved had the authority purchased goods through the distribution center or DEPTCOR.

Student to Administrator Ratio

The Department of Education, using information supplied by the school districts, issues an annual Comparative Spending Guide (CSG) which allows officials and the public the opportunity to review and compare various components of a school district's annual budget to other similar districts in the state. The 1998-1999 Comparative Spending Guide reports Asbury Park's student to an administrator ratio as 113 (students) to 1 (administrator). The district had the worst ratio, ranking 75th out of 75 schools in its operating category of 1801 to 3500 students. The average ratio for its operating category was 164 to 1, and the state's average ratio for all K-12 districts was 171 to 1. Since Asbury Park School District (APSD) is classified as an Abbott District and receives parity aid, we developed a student to administrator ratio using 16 comparable Abbott districts. This ratio was 169 to 1. The APSD reported 30 administrative personnel. By using any one of the ratios noted above, the district's administrative personnel staffing level would be between 20 and 21 positions. Hence, the APSD had between 9 and 10 administrative personnel above the average of a comparable district. If the APSD administrative staffing level was closer to the average of a comparable district, the APSD would have saved approximately \$100,000 per position or \$1 million based on 1998-1999 salary and fringe benefit costs.

Vacation and Sick Leave Stipends

The state limits the maximum reimbursement for sick leave at retirement to \$15,000. State policy for vacation leave is limited to any unused portion of the current year allowance plus a maximum carry forward of one year's allowance at the current daily rate of pay. If the Asbury Park School District had a policy similar to the state's, the total cost of the stipends for the four retired employees would have been reduced from \$188,000 to \$96,000, a savings of \$92,000.

Cancellation of Health Benefits

The APSD is a member of the State Health Benefits Program (SHBP). Coverage under the SHBP is discontinued upon an employee's retirement or termination. A review of monthly bills for health benefits found 29 former employees receiving coverage after their eligibility had ended. Coverage continued past the eligibility period due to either a lack of notification of the change in employment status or a lack of follow up after the initial notification to ensure timely removal from the SHBP. Premiums paid by the district for those former employees totaled \$24,000.

Shift Overlap

According to union contract, custody officers each receive twenty minutes per day in overtime compensation for a shift overlap because custody officers cannot leave a post until relieved by an incoming custody officer. The facility's overtime costs for shift overlap for fiscal year 1998 were \$1.1 million. We understand the safety needs of the shift overlap procedure; however, it is the responsibility of management to implement cost effective procedures to meet its objectives. Correctional facilities run 24 hours per day which requires 3 eight-hour shifts. The first and second shifts, requiring the most custody officers, currently result in the greatest shift overlap cost. Overtime costs could be reduced by scheduling the second shift to start 20 minutes earlier rather than retaining the first shift for 20 minutes of overtime. The same schedule would apply to the next shift change except the third shift's schedule would be advanced 40 minutes, thus eliminating the second shift's overlap cost. In order to realize the maximum cost savings, when the third shift is replaced by the morning (first) shift it would be necessary to retain the third shift rather than scheduling the first shift to report early. Although this rescheduling would result in one hour overtime for the third shift officers, it would eliminate shift overlap costs for the significantly larger first and second shifts. We estimate that this rescheduling would result in a 50 percent reduction in shift overlap cost for a savings of \$550,000. The overtime for the last shift could also be viewed as a shift differential and be an incentive to work the least desirable shift. The savings could be enhanced as the amount of time needed for the shift overlap is decreased. Below we have illustrated a sample schedule with the corresponding number of correction officers on each shift.

	<u>Shift</u>	<u>Hours Paid</u>	<u>Positions</u>
1 st -	6:00 AM to 2:00 PM	(8 hrs. reg. time)	187
2 nd -	1:40 PM to 9:40 PM	(8 hrs. reg. time)	145
3 rd -	9:20 PM to 6:20 AM	(8 hrs. reg. time and 1 hr O.T.)	53

Bail Forfeitures

When a defendant fails to appear and the judge orders a bail forfeiture, the Administrative Office of the Courts forfeiture procedures grant the surety 45 days to return the defendant to custody, file an objection to the forfeiture order or pay the forfeiture amount. In our review of the Cumulative Order for Forfeiture Report, we noted there were 46 instances totaling \$416,000 where bonds over 45 days old had not been executed for forfeiture.

Bail Filing Fees

We noted a loss in revenues of \$14,000 due to 614 uncollected filing fees for own release (OR) recognizance and 175 uncollected filing fees for recognizance using bonds. These filing fees dated from January 1995 to July 1999. We noticed that these fees are rarely collected because the filing fee is not collected at the initial intake point with the bail filings.

Building Leases

In an effort to meet the need for classroom, office, and warehouse space, while remaining within its budgetary constraints, the district entered into five lease agreements with private building owners. Outright purchase or the exercising of favorable purchase options were not pursued because of the district's inability or reluctance to obtain the funding needed to buy these buildings. As a result, net lease expenditures equivalent to implied interest rates in excess of 12 percent of the estimated purchase prices were paid on three of the properties. Since the need for the leased building space appears to be long-term, purchase of these buildings at more favorable interest rates would be a cost savings device. Comparing these interest rates to the five percent rate paid by the district on their recent lease purchase agreement certificates of participation, over \$320,000 could have been saved during each of our audited fiscal years if the buildings were purchased with financing obtained at this lower interest rate.

Prescription Drug Benefit Premiums

Our comparison of the prescription drug insurance rates charged by the private insurer to those rates offered by the state's plan found that the district would save \$125,000 annually under the state plan. For fiscal years 1999 and 2000, the Division of Pensions and Benefits' rates for comparable or better coverage proved to be lower than those of the district's private insurer.

Uncollected Forfeited Bail Bonds

When a defendant fails to appear and the judge orders a bail forfeiture, the Administrative Office of the Courts (AOC) forfeiture procedures grant the surety 45 days to return the defendant to custody, file an objection to the forfeiture order or pay the forfeiture amount. As of December 31, 1998, the vicinage bail reports stated that there were 88 forfeited bail cases, totaling \$2.4 million in uncollected corporate surety bonds, that were more than one year old. We estimate that one-third would be forfeited if an entry of judgment was filed. Approximately, \$800,000 would be collected with \$400,000 going to the state.

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TYPE OF FINDINGS

<u>EXECUTIVE BRANCH AGENCIES</u>	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY</u>
Department of Corrections Garden State Youth Correctional Facility		X	X
Department of Environmental Protection Natural and Historical Resources Selected Program	X	X	X
Department of Health and Senior Services Selected Programs	X	X	
Department of Human Services Division of Developmental Disabilities Community Programs - Grants-In-Aid		X	X
Department of Human Services Division of Developmental Disabilities Hunterdon Developmental Center		NO FINDINGS REPORTED	
Department of Human Services Division of Family Development Intake and Eligibility Process		X	X
Department of Human Services Division of Medical Assistance and Health Services		NO FINDINGS REPORTED	
Department of Human Services Division of Mental Health Services Ann Klein Forensic Center	X	X	X
Department of Human Services Division of Youth and Family Services	X	X	
Department of Labor Workforce Development Partnership Program		X	X
Compliance - Noncompliance with laws or regulations			
Controls - Weaknesses in internal control			
Economy - Economies and efficiencies to improve operations			

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<u>EXECUTIVE BRANCH AGENCIES</u>	<u>TYPE OF FINDINGS</u>		
	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY</u>
Department of Law and Public Safety Division of Criminal Justice			
	NO FINDINGS REPORTED		
Department of Law and Public Safety Division of Criminal Justice Seizure and Forfeiture Fund	X	X	
Department of Military and Veterans' Affairs, Selected Programs	X	X	X
Department of Transportation Division of Motor Vehicles Selected Programs		X	X
Department of Transportation New Jersey Transportation Trust Fund Appropriations			
	NO FINDINGS REPORTED		
Department of Transportation New Jersey Transportation Trust Fund Authority Appropriations			
	NO FINDINGS REPORTED		
Department of the Treasury Bureau of Risk Management		X	X
Department of the Treasury Division of Pensions and Benefits State Health Benefits Program		X	X
Department of the Treasury Division of Pensions and Benefits State Health Information Processing System		X	X

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<u>EXECUTIVE BRANCH AGENCIES</u>	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY</u>
Juvenile Justice Commission New Jersey Training School for Boys	X	X	X
New Jersey Public Broadcasting Authority	X	X	
<u>JUDICIAL BRANCH AGENCIES</u>			
Judiciary Administrative Office of the Courts		X	X
Judiciary Administrative Office of the Courts Central Automated Bail System		X	X
Judiciary Administrative Office of the Court Judiciary Bail Fund		X	X
Judiciary Administrative Office of the Courts Judiciary Special Civil Fund, Judiciary Probation Fund and Judiciary Superior Court - Miscellaneous Fund		X	X
Judiciary Administrative Office of the Courts Superior Court of New Jersey Bergen Vicinage	X	X	X
Judiciary Administrative Office of the Courts Superior Court of New Jersey Mercer Vicinage	X	X	X

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TYPE OF FINDINGS

<u>JUDICIAL BRANCH AGENCIES (cont.)</u>	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY</u>
Judiciary			
Administrative Office of the Courts			
Superior Court of New Jersey	X	X	X
Passaic Vicinage			
Judiciary			
Administrative Office of the Courts			
Superior Court of New Jersey	X	X	X
Somerset, Hunterdon and Warren Vicinage			
<u>School Boards</u>			
Asbury Park Board of Education		X	X
Bridgeton Board of Education	X	X	X
City of Camden Board of Education	X	X	X
City of Millville Board of Education	X	X	
City of Paterson Board of Education		X	X
Commercial Township Board of Education	X	X	X
Fairfield Township Board of Education	NO FINDINGS REPORTED		
Keansburg Borough Board of Education	X	X	X
Pemberton Township Board of Education	NO FINDINGS REPORTED		
Pleasantville Board of Education	X	X	X
Trenton Board of Education	X	X	X
Woodlynne Borough Board of Education	X	X	X

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	<u>TYPE OF FINDINGS</u>			
	<u>FINANCIAL STATEMENT AUDITS</u>	<u>COMPLIANCE</u>	<u>CONTROLS</u>	<u>ECONOMY</u>
Casino Control Fund		NO FINDINGS REPORTED		
New Jersey Comprehensive Annual Financial Report		OPINION ONLY		
New Jersey State Lottery Commission		OPINION ONLY		
State of New Jersey Division of Pensions and Benefits Combined Financial Statements		OPINION ONLY		
State of New Jersey Report on Compliance and Internal Control Related to Our Audit of the State's Comprehensive Annual Financial Report			X	

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