



STATE OF NEW JERSEY

Single Audit Report

Year ended June 30, 2010

Independent Auditors' Report on the Schedule of Expenditures of Federal Awards

Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal
Control over Compliance in Accordance with OMB Circular A-133

STATE OF NEW JERSEY

Year ended June 30, 2010

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Independent Auditors' Report on the Schedule of Expenditures of Federal Awards

The Governor
State of New Jersey:

We have audited the accompanying schedule of expenditures of Federal awards of the State of New Jersey (the Schedule) for the year ended June 30, 2010. This Schedule is the responsibility of the State of New Jersey's management. Our responsibility is to express an opinion on this Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting of the Schedule. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 to the schedule of expenditures of Federal awards, the Schedule does not include expenditures of Federal awards for those entities determined to be component units of the State of New Jersey for financial statement purposes. These entities may be required to have their own independent audit in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

As described in note 2 to the schedule of expenditures of Federal awards, the Schedule is prepared on the cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the schedule of expenditures of Federal awards referred to above presents fairly, in all material respects, the expenditures of Federal awards of the State of New Jersey, as described above, for the year ended June 30, 2010 on the basis of accounting described in note 2.

This report is intended solely for the information and use of management of the State of New Jersey, the U.S. Department of Health and Human Services and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

April 25, 2011

STATE OF NEW JERSEY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(Amounts in thousands)

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
	U.S. Department of Agriculture:		
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 1,136	—
10.028	Wildlife Services	61	—
10.069	Conservation Reserve Program	214	214
10.086	ARRA - Aquaculture Grants Program	4	4
10.163	Market Protection and Promotion	140	—
10.169	Specialty Crop Block Grant Program	386	370
10.170	Specialty Crop Block Grant Program - Farm Bill	58	58
10.304	Homeland Security - Agricultural	39	—
10.435	State Mediation Grants	15	—
10.450	Crop Insurance	26	—
10.458	Crop Insurance Education in Targeted States	248	—
10.475	Cooperative Agreements with States for Intrastate Meat & Poultry Inspection	356	—
	<i>SNAP Cluster:</i>		
10.551	Supplemental Nutrition Assistance Program (nonmonetary)	981,690	—
10.561	State Administrative Matching Grants for Supplemental Nutrition Assistance Program	83,733	74,189
10.561	ARRA - State Administrative Matching Grants for Supplemental Nutrition Assistance Program	3,766	3,766
	Total State Administrative Matching Grants for Supplemental Nutrition Assistance Program	87,499	77,955
	Total SNAP Cluster	1,069,189	77,955
	<i>Child Nutrition Cluster:</i>		
10.553	School Breakfast Program	45,362	45,362
10.555	National School Lunch Program	189,500	189,500
10.556	Special Milk Program for Children	604	604
10.559	Summer Food Service Program for Children	7,636	7,312
	Total Child Nutrition Cluster	243,102	242,778
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	127,436	20,936
10.558	Child and Adult Care Food Program	61,733	60,939
10.560	State Administrative Expenses for Child Nutrition	3,456	—
10.565	Commodity Supplemental Food Program	10	1
	<i>Emergency Food Assistance Cluster:</i>		
10.568	Emergency Food Assistance Program (Administrative Costs)	1,179	1,115
10.568	ARRA - Emergency Food Assistance Program (Administrative Costs)	764	318
	Total Emergency Food Assistance Program (Administrative Costs)	1,943	1,433
10.569	Emergency Food Assistance Program (Food Commodities)	14,027	—
	Total Emergency Food Assistance Cluster	15,970	1,433
10.572	WIC Farmers' Market Nutrition Program (FMNP)	679	—
10.576	Senior Farmers' Market Nutrition Program	1,013	39
10.579	Child Nutrition Discretionary Grant Limited Availability	228	228
10.579	ARRA - Child Nutrition Discretionary Grant Limited Availability	1,017	1,017
	Total Child Nutrition Discretionary Grant Limited Availability	1,245	1,245
10.582	Fresh Fruit and Vegetable Program	1,777	1,709
10.664	Cooperative Forestry Assistance	3,696	277
10.676	Forest Legacy Program	1	—
10.677	Forest Land Enhancement Program (FLEP)	8	—
10.680	Forest Health Protection	713	—
10.688	ARRA - Wildland Fire Management, Recovery Act	29	—
10.854	Rural Economic Development Loans and Grants	70	70
10.913	Farm and Ranch Lands Protection Program	2,996	2,996
10.914	Wildlife Habitat Incentive Program (WHIP)	61	—
	Total U.S. Department of Agriculture	1,535,867	411,024
	U.S. Department of Commerce:		
11.407	Interjurisdictional Fisheries Act of 1986	131	—
11.413	Fishery Products Inspection and Certification	97	—
11.419	Coastal Zone Management Administration Awards	2,634	130
11.441	Regional Fishery Management Councils	785	—
11.463	ARRA - Habitat Conservation	2,458	—
11.472	Unallied Science Program	9	—
11.474	Atlantic Coastal Fisheries Cooperative Management Act	699	—
11.550	Public Telecommunications Facilities Planning and Construction	64	—
11.555	Public Safety Interoperable Communications Grant Program	9,944	—
	Total U.S. Department of Commerce	16,821	130

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(Amounts in thousands)

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
	U.S. Department of Defense:		
12.400	Military Construction, National Guard	\$ 1,673	—
12.401	National Guard Military Operations and Maintenance (O&M) Projects	37,194	—
12.401	ARRA - National Guard Military Operations and Maintenance (O&M) Projects	808	—
	Total National Guard Military Operations and Maintenance (O&M) Projects	38,002	—
12.UNA	Unassigned catalog number from Federal Government	2,303	—
	Total U.S. Department of Defense	41,978	—
	U.S. Department of Housing and Urban Development:		
	<i>CDBG - State-Administered Small Cities Program Cluster:</i>		
14.228	Community Development Block Grants/State's Programs	8,879	8,698
14.255	ARRA - Community Development Block Grants/State's Programs	849	825
	Total CDBG - State-Administered Small Cities Program Cluster	9,728	9,523
14.231	Emergency Shelter Grants Program	1,516	1,462
14.235	Supportive Housing Program	370	45
14.238	Shelter Plus Care	2,089	—
14.239	Home Investment Partnerships Program	5,437	1,739
14.241	Housing Opportunities for Persons with AIDS	2,021	—
14.241	Housing Opportunities for Persons with AIDS Pass-Through – Woodbridge Township	107	—
14.241	Housing Opportunities for Persons with AIDS Pass-Through – Camden	237	—
14.241	Housing Opportunities for Persons with AIDS Pass-Through – City of Paterson	47	—
	Total Housing Opportunities for Persons with AIDS	2,412	—
14.257	ARRA - Homelessness Prevention & Rapid Re-housing	1,192	1,155
	<i>Section 8 Project-Based Cluster:</i>		
14.856	Lower Income Housing Assistance Program: Section 8 Moderate Rehabilitation	8,312	—
	Total Section 8 Project-Based Cluster	8,312	—
	<i>Housing Voucher Cluster:</i>		
14.871	Section 8 Housing Choice Vouchers	195,077	214
	Total Housing Voucher Cluster	195,077	214
14.UNA	Unassigned catalog number from Federal Government	5,865	5,569
	Total U.S. Department of Housing and Urban Development	231,998	19,707
	U.S. Department of the Interior:		
	<i>Fish and Wildlife Cluster:</i>		
15.605	Sport Fish Restoration	3,106	54
15.611	Wildlife Restoration	1,234	—
	Total Fish and Wildlife Cluster	4,340	54
15.615	Cooperative Endangered Species Conservation Fund	44	—
15.616	Clean Vessel Act	243	197
15.622	Sport Fishing and Boating Safety Act	114	—
15.633	Landowner Incentive	598	525
15.634	State Wildlife Grants	1,241	—
15.808	U.S. Geological Survey - Research and Data Collection	3	—
15.814	National Geological and Geophysical Data Preservation Program	1	—
15.904	Historic Preservation Fund Grants-in-aid	1,876	34
15.916	Outdoor Recreation - Acquisition, Development, and Planning	1,624	624
	Total U.S. Department of the Interior	10,084	1,434
	U.S. Department of Justice:		
16.017	Sexual Assault Services Formula Program	153	153
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	679	369
16.320	Services for Trafficking Victims	97	—
16.523	Juvenile Accountability Block Grants	1,110	996
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	894	566
16.543	Missing Children's Assistance	139	1
16.544	Youth Gang Prevention	70	70
16.548	Title V: Delinquency Prevention Program	1	—
16.550	State Justice Statistics Program for Statistical Analysis Centers	50	—
16.554	National Criminal History Improvement Program (NCHIP)	149	—

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(Amounts in thousands)

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	\$ 562	212
16.564	Crime Lab Improvement Combined Offender DNA Index System Backlog Reduction	26	1
16.575	Crime Victim Assistance	8,384	6,883
16.576	Crime Victim Compensation	1,528	1,075
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	258	—
16.582	Crime Victim Assistance/Discretionary Grant	73	73
16.585	Drug Court Discretionary Grant Program	36	—
16.588	Violence Against Women Formula Grants	2,530	2,082
16.588	ARRA - Violence Against Women Formula Grants	420	402
	Total Violence Against Women Formula Grants	2,950	2,484
16.593	Residential Substance Abuse Treatment for State Prisoners	147	98
16.601	Corrections - Training and Staff Development	23	—
16.606	State Criminal Alien Assistance Program	3,718	—
16.607	Bulletproof Vest Partnership Program	143	—
16.609	Project Safe Neighborhoods	379	279
16.727	Enforcing Underage Drinking Laws Program	354	336
16.735	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	94	31
16.738	Edward Byrne Memorial Justice Assistance Grant Program	3,208	2,357
16.741	Forensic DNA Backlog Reduction Program	730	—
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	176	10
16.743	Forensic Casework BNA Backlog Reduction Program	93	—
16.744	Anti-Gang Initiative	532	292
16.745	Criminal & Juvenile Justice & Mental Health Collaboration Program	63	—
16.750	Support for Adam Walsh Act Implementation Grant Program	15	—
16.800	ARRA - Internet Crimes against Children Task Force Program	38	1
16.801	ARRA - State Victim Assistance Formula Grant Program	95	88
16.802	ARRA - State Victim Compensation Formula Grant Program	1,340	820
16.803	ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	2,352	1,138
16.808	ARRA - Edward Byrne Memorial Competitive Grant Program	300	—
	Total U.S. Department of Justice	30,959	18,333
U.S. Department of Labor:			
17.002	Labor Force Statistics	2,435	—
17.005	Compensation and Working Conditions	327	—
<i>Employment Services Cluster:</i>			
17.207	Employment Service/Wagner-Peyser Funded Activities	19,627	42
17.207	ARRA - Employment Service/Wagner-Peyser Funded Activities	4,937	—
	Total Employment Service/Wagner-Peyser Funded Activities	24,564	42
17.801	Disabled Veterans' Outreach Program	2,108	—
17.804	Local Veterans' Employment Representative Program	1,125	—
	Total Employment Services Cluster	27,797	42
17.225	Unemployment Insurance – Federal	135,523	—
17.225	ARRA - Unemployment Insurance – Federal	167,114	—
17.225	Unemployment Insurance – State	8,211,982	—
	Total Unemployment Insurance	8,514,619	—
17.235	Senior Community Service Employment Program	2,673	—
17.235	ARRA - Senior Community Service Employment Program	471	—
	Total Senior Community Service Employment Program	3,144	—
17.245	Trade Adjustment Assistance	3,527	3,023
<i>WIA Cluster:</i>			
17.258	Workforce Investment Act-Adult Program	25,707	15,694
17.258	ARRA - Workforce Investment Act-Adult Program	6,174	5,245
	Total Workforce Investment Act-Adult Program	31,881	20,939
17.259	Workforce Investment Act-Youth Activities	13,761	13,761
17.259	ARRA - Workforce Investment Act-Youth Activities	15,319	15,319
	Total Workforce Investment Act-Youth Activities	29,080	29,080
17.260	Workforce Investment Act-Dislocated Workers	16,705	16,482
17.260	ARRA - Workforce Investment Act-Dislocated Workers	12,317	12,317
	Total Workforce Investment Act-Dislocated Workers	29,022	28,799
	Total WIA Cluster	89,983	78,818

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(Amounts in thousands)

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
17.261	Workforce Investment Act-Pilots, Demonstrations, and Research Projects	\$ 3,132	—
17.266	Work Incentive Grant	100	49
17.268	H-1B Job Training Grants	2,290	2,278
17.273	Temporary Labor Certification for Foreign Workers	640	—
17.275	ARRA - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	1	—
17.503	Occupational Safety & Health – State Program	1,814	—
17.503	ARRA - Occupational Safety & Health – State Program	2	—
	Total Occupational Safety & Health – State Program	1,816	—
17.504	Consultation Agreements	1,539	—
17.600	Mine Health and Safety Grants	50	—
	Total U.S. Department of Labor	8,651,400	84,210
	U.S. Department of Transportation:		
20.106	Airport Improvement Program	494	—
	<i>Highway Planning and Construction Cluster:</i>		
20.205	Highway Planning and Construction	687,508	35,899
20.205	ARRA - Highway Planning and Construction	214,986	—
	Total Highway Planning and Construction	902,494	35,899
20.219	Recreational Trails Program	1,011	946
	Total Highway Planning and Construction Cluster	903,505	36,845
20.218	National Motor Carrier Safety	5,993	—
20.232	Commercial Driver License Program Improvement Grant	560	—
20.234	Safety Data Improvement Program	58	—
20.505	Metropolitan Transportation Planning	2,193	—
	<i>Highway Safety Cluster:</i>		
20.600	State and Community Highway Safety	5,103	2,449
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants	3,255	2,517
20.602	Occupant Protection Incentive Grants	586	458
20.609	Safety Belt Performance Grants	1,548	920
20.610	State Traffic Safety Information System Improvement Grants	838	4
20.611	Incentive Grant to Prohibit Racial Profiling	135	124
20.612	Incentive Grant program to Increase Motorcyclist Safety	22	—
20.613	Child Safety and Child Booster Seats Incentive Grants	656	477
	Total Highway Safety Cluster	12,143	6,949
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	418	386
20.CON	Contractual Agreements – Fatal Accident Reporting System	300	—
	Total U.S. Department of Transportation	925,664	44,180
	Equal Employment Opportunity Commission		
30.002	Employment Discrimination - State & Local Fair Employment Practices Agency Contracts	1	—
	Total Equal Employment Opportunity Commission	1	—
	National Foundation on the Arts and the Humanities:		
45.025	Promotion of the Arts: Partnership Agreements	920	427
45.025	ARRA - Promotion of the Arts: Partnership Agreements	332	332
	Total Promotion of the Arts: Partnership Agreements	1,252	759
	Total National Foundation on the Arts and the Humanities	1,252	759
	U.S. Department of Veterans Affairs:		
64.005	Grants to States for Construction of State Home Facilities	92	—
64.125	Vocational and Educational Counseling for Servicemembers and Veterans	422	—
64.203	State Cemetery Grants	628	—
	Total U.S. Department of Veterans Affairs	1,142	—
	U.S. Environmental Protection Agency:		
66.034	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to Clean Air Act	623	70
66.040	State Clean Diesel Grant Program	72	—
66.040	ARRA - State Clean Diesel Grant Program	411	—
	Total State Clean Diesel Grant Program	483	—

STATE OF NEW JERSEY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(Amounts in thousands)

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
66.202	Congressionally Mandated Projects	\$ 79	—
66.436	Surveys, Studies, Investigations, Demonstrations, Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	8	—
66.454	Water Quality Management Planning	299	131
66.454	ARRA - Water Quality Management Planning	326	326
	Total Water Quality Management Planning	625	457
66.456	National Estuary Program	5	—
66.458	Capitalization Grants for Clean Water State Revolving Funds	46,181	44,934
66.458	ARRA - Capitalization Grants for Clean Water State Revolving Funds	48,354	48,354
	Total Capitalization Grants for Clean Water State Revolving Funds	94,535	93,288
66.467	Wastewater Operator Training Grant Program	20	—
66.468	Capitalization Grants for Drinking Water State Revolving Funds	21,181	17,093
66.468	ARRA - Capitalization Grants for Drinking Water State Revolving Funds	16,007	16,007
	Total Capitalization Grants for Drinking Water State Revolving Funds	37,188	33,100
66.471	State Grants to Reimburse Operators of Small Water Systems for Training & Certification Costs	3	—
66.472	Beach Monitoring & Notification Program Implementation Grant	574	248
66.474	Water Protection Grants to the States	23	—
66.479	Wetland Program Grants - State/Tribal Environmental Outcome Wetland Demonstration Program	113	—
66.511	Office of Research & Development Consolidated Research/Training/Fellowships	56	—
66.605	Performance Partnership Grants	11,550	4,070
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	420	—
66.611	Environmental Policy and Innovation Grants	22	—
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	156	—
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	314	—
66.708	Pollution Prevention Grants Program	13	—
66.709	Multi-Media Capacity Building Grants for States and Tribes	43	—
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	1,342	—
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	1,128	—
66.805	Leaking Underground Storage Tank Trust Fund Program	1,519	—
66.805	ARRA - Leaking Underground Storage Tank Trust Fund Program	961	—
	Total Leaking Underground Storage Tank Trust Fund Program	2,480	—
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	(7)	—
66.817	State and Tribal Response Program Grants	740	—
66.951	Environmental Education Grants	2	—
	Total U.S. Environmental Protection Agency	152,538	131,233
	U.S. Department of Energy:		
81.041	State Energy Program	765	556
81.042	Weatherization Assistance for Low-Income Persons	6,831	6,285
81.042	ARRA - Weatherization Assistance for Low-Income Persons	17,215	16,732
	Total Weatherization Assistance for Low-Income Persons	24,046	23,017
81.089	Fossil Energy Research and Development	7	—
81.117	Energy Efficiency and Renewable Energy Information, Dissemination, Outreach, Training and Technical Analysis/Assistance	5	5
81.ADM	Administration Costs Consolidations	61	—
	Total U.S. Department of Energy	24,884	23,578
	U.S. Department of Education:		
84.002	Adult Education - Basic Grants to States	16,539	17,586
	<i>Title I, Part A Cluster:</i>		
84.010	Title 1 Grants to Local Educational Agencies	264,631	259,975
84.389	ARRA - Title 1 Grants to Local Educational Agencies, Recovery Act	49,822	49,822
	Total Title 1, Part A Cluster	314,453	309,797
84.011	Migrant Education: State Grant Program	1,208	1,123
84.013	Title I State Agency Program for Neglected and Delinquent Children	3,031	638

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(Amounts in thousands)

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
	<i>Special Education Cluster (IDEA):</i>		
84.027	Special Education - Grants to States	\$ 372,405	351,478
84.173	Special Education - Preschool Grants	10,348	10,088
84.391	ARRA - Special Education - Grants to States, Recovery Act	120,704	120,647
84.392	ARRA - Special Education - Preschool Grants, Recovery Act	2,922	2,918
	Total Special Education Cluster (IDEA)	506,379	485,131
84.032	Federal Family Education Loans (Guaranty Agencies)	768,382	—
84.048	Career and Technical Education - Basic Grants to States	27,949	25,379
84.069	Leveraging Educational Assistance Partnership	1,874	—
	<i>Vocational Rehabilitation Cluster:</i>		
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	59,598	27,297
84.390	ARRA - Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act	1,081	826
	Total Vocational Rehabilitation Cluster	60,679	28,123
84.144	Migrant Education - Coordination Program	1	—
	<i>Independent Living State Grants Cluster:</i>		
84.169	Independent Living State Grants	762	762
	Total Independent Living State Grants Cluster	762	762
	<i>Independent Living Services for Older Individuals Who Are Blind Cluster:</i>		
84.177	Rehabilitation Services: Independent Living Services for Older Individuals Who are Blind	1,009	1,009
84.399	ARRA - Independent Living Services for Older Individuals Who are Blind, Recovery Act	57	57
	Total Independent Living Services for Older Individuals Who Are Blind Cluster	1,066	1,066
	<i>Early Intervention Services (IDEA) Cluster:</i>		
84.181	Special Education - Grants for Infants and Families	10,148	7,180
84.393	ARRA - Special Education - Grants for Infants and Families, Recovery Act	6,013	6,013
	Total Early Intervention Services (IDEA) Cluster	16,161	13,193
84.185	Byrd Honors Scholarships	1,073	—
84.186	Safe and Drug-Free Schools and Communities: State Grants	6,496	5,962
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	79	79
	<i>Education of Homeless Children and Youth Cluster:</i>		
84.196	Education for Homeless Children and Youth	540	430
84.387	ARRA - Education for Homeless Children and Youth, Recovery Act	194	194
	Total Education for Homeless Children and Youth Cluster	734	624
84.213	Even Start: State Educational Agencies	1,287	1,222
84.215	Fund for the Improvement of Education	676	556
84.224	Assistive Technology	466	456
84.243	Tech-Prep Education	3,901	3,770
84.265	Rehabilitation Training: State Vocational Rehabilitation Unit In-service Training	37	7
84.282	Charter Schools	2,227	2,108
84.287	Twenty-First Century Community Learning Centers	17,528	16,681
84.293	Foreign Language Assistance	47	—
84.298	State Grants for Innovative Programs	83	108
	<i>Education Technology State Grants Cluster:</i>		
84.318	Education Technology State Grants	3,804	3,609
84.386	ARRA - Education Technology State Grants, Recovery Act	690	676
	Total Education Technology State Grants Cluster	4,494	4,285
84.326	Special Education - Technical Assistance & Dissemination to Improve Services and Results for Children with Disabilities	6	—
84.330	Advanced Placement Program	329	—
84.331	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	391	—
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	3,178	2,751
	<i>Teacher Quality Partnership Grants Cluster:</i>		
84.336	Teacher Quality Enhancement Grants	572	6
	Total Teacher Quality Partnership Grants Cluster	572	6
84.357	Reading First State Program	8,081	6,688
84.358	Rural Education	5	5
84.365	English Language Acquisition Grants	15,523	14,658
84.366	Mathematics and Science Partnerships	1,971	1,778
84.367	Improving Teacher Quality State Grants	59,964	57,551
84.369	Grants for State Assessments and Related Activities	9,779	—

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		Expenditures	Passed through to subrecipients
84.377	<i>School Improvement Grants Cluster:</i> School Improvement Grants	\$ 3,286	3,211
	Total School Improvement Grants Cluster	3,286	3,211
84.378	College Access Challenge Grant Program	551	551
	<i>State Fiscal Stabilization Fund Cluster:</i>		
84.394	ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act	1,080,504	1,017,153
84.397	ARRA - State Fiscal Stabilization Fund - Government Services, Recovery Act	79,606	39,087
	Total State Fiscal Stabilization Fund Cluster	1,160,110	1,056,240
84.CON	Contractual Agreements – National Center Educational Statistics	251	—
	Total U.S. Department of Education	3,021,609	2,062,095
	U.S. Election Assistance Commission:		
90.401	Help America Vote Act Requirements Payments	3,803	—
	Total U.S. Election Assistance Commission	3,803	—
	U.S. Department of Health and Human Services:		
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	117	—
93.041	Special Programs for the Aging: Title VII, Chapter 3: Programs for Prevention of Elder Abuse, Neglect, and Exploitation	139	—
93.042	Special Programs for the Aging: Title VII, Chapter 2: Long Term Care Ombudsman Services for Older Individuals	387	152
93.043	Special Programs for the Aging: Title III, Part D: Disease Prevention and Health Promotion Services	539	539
	<i>Aging Cluster:</i>		
93.044	Special Programs for the Aging: Title III, Part B: Grants for Supportive Services and Senior Centers	9,200	9,200
93.045	Special Programs for the Aging: Title III, Part C: Nutrition Services	16,534	15,386
93.053	Nutrition Services Incentive Program	3,757	3,757
93.705	ARRA - Aging Home-Delivered Nutrition Services for States, Recovery Act	738	738
93.707	ARRA - Aging Congregate Nutrition Services for States, Recovery Act	1,454	1,454
	Total Aging Cluster	31,683	30,535
93.048	Special Programs for the Aging: Title IV & Title II Discretionary Projects	725	462
93.051	Alzheimer's Disease Demonstration Grants to States	264	250
93.052	National Family Caregiver Support, Title III, Part E	3,949	3,951
93.069	Public Health Emergency Preparedness	33,611	18,650
93.069	Public Health Emergency Preparedness (nonmonetary)	21,761	—
	Total Public Health Emergency Preparedness	55,372	18,650
93.071	Medicare Enrollment Assistance Program	111	98
93.086	Healthy Marriage Promotion & Responsible Fatherhood Grants	281	55
93.110	Maternal and Child Health Federal Consolidated Programs	64	—
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	4,145	2,668
93.127	Emergency Medical Services for Children	133	—
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	210	66
93.136	Injury Prevention and Control Research and State and Community Based Programs	1,562	1,323
93.142	NIEHS Hazardous Waste Worker Health and Safety Training	79	—
93.150	Projects for Assistance in Transition from Homelessness	2,156	2,084
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	1,854	1,629
93.165	Grants to States for Loan Repayment Program	60	—
93.197	Childhood Lead Poisoning Prevention Projects: State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	841	474
93.204	Surveillance of Hazardous Substance Emergency Events	40	—
93.217	Family Planning Services	3,189	2,664
93.234	Traumatic Brain Injury: State Demonstration Grant Program	35	3,380
93.240	State Capacity Building	495	—
93.243	Substance Abuse and Mental Health Services: Projects of Regional and National Significance	3,870	—
93.251	Universal Newborn Hearing Screening	172	115
93.262	Occupational Safety and Health Program	386	—

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010
(Amounts in thousands)

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
	<i>Immunization Cluster:</i>		
93.268	Immunization Grants	\$ 5,185	1,627
93.268	Immunization Grants (nonmonetary)	56,207	—
	Total Immunization Grants	61,392	1,627
93.712	ARRA - Immunization (nonmonetary)	5,747	—
	Total Immunization Cluster	67,139	1,627
93.283	Centers for Disease Control and Prevention: Investigations and Technical Assistance	8,886	3,254
93.293	Public Health Law Social Distancing Project	625	93
93.402	ARRA - State Loan Repayment Program	120	—
93.414	ARRA - State Primary Care Offices	34	12
93.556	Promoting Safe and Stable Families	5,217	5,197
	<i>TANF Cluster:</i>		
93.558	Temporary Assistance for Needy Families	380,411	332,302
93.714	ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs	145,480	4,681
	Total TANF Cluster	525,891	336,983
93.563	Child Support Enforcement	122,821	28,549
93.563	ARRA - Child Support Enforcement	44,489	—
	Total Child Support Enforcement	167,310	28,549
93.564	Child Support Enforcement Research	92	—
93.566	Refugee and Entrant Assistance: State Administered Programs	2,197	1,966
93.568	Low-Income Home Energy Assistance	163,679	23,095
	<i>CSBG Cluster:</i>		
93.569	Community Services Block Grant	14,485	13,580
93.710	ARRA - Community Services Block Grant	14,402	14,402
	Total CSBG Cluster	28,887	27,982
	<i>CCDF Cluster:</i>		
93.575	Child Care and Development Block Grant	135,286	134,530
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	60,723	59,152
93.713	ARRA - Child Care and Development Block Grant	18,819	18,718
	Total CCDF Cluster	214,828	212,400
93.576	Refugee and Entrant Assistance: Discretionary Grants	183	138
93.585	Empowerment Zones Program	1,521	1,521
93.586	State Court Improvement Program	888	—
93.590	Community Based Child Abuse Prevention Grants	1,364	1,014
93.597	Grants to States for Access and Visitation Programs	252	—
93.599	Chafee Education and Training Vouchers Program (ETV)	1,073	1,073
	<i>Head Start Cluster:</i>		
93.600	Head Start	181	—
	Total Head Start Cluster	181	—
93.617	Voting Access for Individuals with Disabilities Grants to State	226	160
93.630	Developmental Disabilities Basic Support and Advocacy Grants	1,540	560
93.643	Children's Justice Grants to States	393	393
93.645	Child Welfare Services: State Grants	5,929	—
93.658	Foster Care - Title IV-E	74,108	2,174
93.658	ARRA - Foster Care - Title IV-E	3,219	—
	Total Foster Care - Title IV-E	77,327	2,174
93.659	Adoption Assistance	52,301	—
93.659	ARRA - Adoption Assistance	4,006	—
	Total Adoption Assistance	56,307	—
93.667	Social Services Block Grant	62,448	40,897
93.669	Child Abuse and Neglect State Grants	736	736
93.670	Child Abuse and Neglect Discretionary Activities	781	781
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters: Grants to States and Indian Tribes	2,013	2,013
93.674	Chafee Foster Care Independence Program	2,333	2,333

STATE OF NEW JERSEY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(Amounts in thousands)

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
93.717	ARRA - Preventing Healthcare-Associated Infections	\$ 1	—
93.725	ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	19	—
93.767	Children's Health Insurance Program	528,105	526,157
93.768	Medicaid Infrastructure Grants – To Support the Competitive Employment of People With Disabilities	257	15
	<i>Medicaid Cluster:</i>		
93.775	State Medicaid Fraud Control Units	3,444	—
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	10,286	—
93.777	ARRA - State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	117	—
	Total State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	10,403	—
93.778	Medical Assistance Program	4,785,992	4,067,324
93.778	ARRA - Medical Assistance Program	1,111,518	1,067,312
	Total Medical Assistance Program	5,897,510	5,134,636
	Total Medicaid Cluster	5,911,357	5,134,636
93.793	Medicaid Transformation Grants	312	—
93.779	Centers For Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	1,430	478
93.790	Alternate Non-Emergency Service Providers or Networks	2,120	—
93.791	Money Follows the Person Rebalancing Demonstration	374	374
93.889	National Bioterrorism Hospital Preparedness Program	12,759	7,921
93.913	Grants to States for Operation of Offices of Rural Health	118	116
93.917	HIV Care Formula Grants	67,577	63,843
93.926	Healthy Start Initiative	358	232
93.940	HIV Prevention Activities: Health Department Based	13,834	8,377
93.941	HIV Demonstration, Research, Public and Professional Education Project	246	—
93.944	Human Immunodeficiency Virus (HIV) Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	3,577	—
93.946	Cooperative Agreements to Support State Based Safe Motherhood and Infant Health Initiative Programs	91	—
93.958	Block Grants for Community Mental Health Services	10,374	10,164
93.959	Block Grants for Prevention and Treatment of Substance Abuse	43,538	36,303
93.977	Preventive Health Services: Sexually Transmitted Diseases Control Grants	2,879	200
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	99	99
93.991	Preventive Health and Health Services Block Grant	3,136	1,429
93.994	Maternal and Child Health Services Block Grant to the States	10,080	3,596
93.CON	Contractual Agreement	2,168	—
93.UNA	Federal Civil Monetary	33	—
	Total U.S. Department of Health and Human Services	8,128,100	6,557,986
	Corporation for National and Community Service:		
94.003	State Commissions	334	—
94.004	Learn and Serve America: School and Community Based Programs	565	396
94.006	AmeriCorps	2,177	1,911
94.006	ARRA - AmeriCorps	492	452
	Total AmeriCorps	2,669	2,363
94.007	Program Development and Innovation Grants	92	—
94.009	Training & Technical Assistance	102	—
	<i>Foster Grandparents/Senior Companion Cluster:</i>		
94.011	Foster Grandparent Program	716	525
	Total Foster Grandparents/Senior Companion Cluster	716	525
94.013	Volunteers in Service to America	15	—
	Total Corporation for National and Community Service	4,493	3,284
	Social Security Administration:		
	<i>Disability Insurance/SSI Cluster:</i>		
96.001	Social Security - Disability Insurance	52,141	364
	Total Disability Insurance/SSI Cluster	52,141	364
96.UNA	Unassigned catalog number from Federal Government	11	—
	Total Social Security Administration	52,152	364

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010
(Amounts in thousands)

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
	U.S. Department of Homeland Security:		
	<i>Homeland Security Cluster:</i>		
97.053	Citizen Corps	\$ 253	8
97.067	Homeland Security Grant Program	17,710	14,351
97.071	Metropolitan Medical Response System	288	288
97.073	State Homeland Security Program	573	490
	Total Homeland Security Cluster	18,824	15,137
97.008	Non-Profit Security Program	20,979	11,427
97.012	Boating Safety Financial Assistance	1,909	—
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	180	180
97.023	Community Assistance Program – State Support Services Element	249	—
97.029	Flood Mitigation Assistance	870	870
	<i>Public Assistance Grants Cluster:</i>		
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	3,938	3,938
	Total Public Assistance Grants Cluster	3,938	3,938
	<i>Hazard Mitigation Grants Cluster:</i>		
97.039	Hazard Mitigation Grant	4,803	4,765
	Total Hazard Mitigation Grants	4,803	4,765
97.041	National Dam Safety Program	56	—
97.042	Emergency Management Performance Grants	6,036	1,787
97.043	State Fire Training Systems Grant	17	—
97.045	Cooperating Technical Partners	4	—
97.047	Pre-Disaster Mitigation	117	117
97.056	Port Security Grant Program	790	486
97.070	Map Modernization Management Support	89	—
97.075	Rail and Transit Security Grant Program	151	—
97.078	Buffer Zone Protection Plan (BZPP)	3,202	3,199
97.091	Homeland Security Biowatch Program	384	—
97.092	Repetitive Flood Claims	32	32
	Total U.S. Department of Homeland Security	62,630	41,938
	Totals	\$ 22,897,375	9,400,255

See accompanying notes to the schedule of expenditures of Federal awards.

STATE OF NEW JERSEY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(1) Basis of Presentation

(a) *Reporting Entity*

The schedule of expenditures of Federal awards (the Schedule) includes all Federal award programs administered by the State of New Jersey (the State) except for component units for the fiscal year ended June 30, 2010. The State of New Jersey financial reporting entity is described in note 1B of the State's Comprehensive Annual Financial Report. Accordingly, the accompanying Schedule presents the Federal awards programs administered by the State of New Jersey, as defined above, for the year ended June 30, 2010.

(b) *Federal Family Education Loan Program*

The State of New Jersey administers the Federal Family Education Loan Program – Guaranty Program (FFELP). During the fiscal year ended June 30, 2010 new loans guaranteed amounted to approximately \$635,948,000, loans repurchased during the year amounted to approximately \$116,433,000 and administrative costs amounted to approximately \$16,001,000 and are included in the accompanying Schedule. The principal outstanding for guaranteed loans at June 30, 2010 was \$3,921,674,000. The loans guaranteed under the FFELP in previous years are not included in the accompanying Schedule.

(c) *Federal Awards Programs Numbers*

Certain programs presented in the accompanying Schedule includes Federal award programs that have not been assigned a Catalog of Federal Domestic Assistance (CFDA) number, which are reported by the respective Federal Agency and titled “UNA”. Programs under direct contract are titled “CON”. The Administration Costs Consolidations under the U.S. Department of Energy is labeled “ADM”.

(d) *Supplemental Nutrition Assistance Program*

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 16.38 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2010.

STATE OF NEW JERSEY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(2) **Basis of Accounting**

(a) *General*

The accompanying Schedule includes the expenditures for each Federal financial assistance program of the State of New Jersey and is presented on the cash basis of accounting, which is based on cash disbursements for the period.

(b) *Highway Planning and Construction Program*

The amount presented in the Highway Planning and Construction Program (20.205) represents the summary of billings from the Department of Transportation to the Federal Government which include expenditures currently determined to be chargeable to the Federal program.

(c) *Nonmonetary Federal Awards*

The amounts identified in the Schedule as surplus foods, food stamps, commodities, and vaccines represent the dollar value of items consumed.

(3) **Matching Costs**

Matching costs, i.e., the non-Federal share of certain program costs, are not included in the accompanying Schedule.

(4) **Relationship to Federal Financial Reports**

The regulations and guidelines governing the preparation of Federal financial reports vary by Federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the Federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule, which is prepared on the cash basis explained in note 2.

(5) **Contingencies**

The State of New Jersey's participation in Federal funding is subject to review by the U.S. Department of Health and Human Services (HHS) as cognizant agency. HHS coordinates the review of findings and questioned costs with other Federal agencies. HHS and the other Federal agencies determine the ultimate allowability of expenditures charged to the Federal grants. The State of New Jersey is unable to determine the amounts, if any, that Federal agencies will disallow. Management is of the opinion that a liability, if any, resulting from any financial or compliance audits would not have a material effect on the Schedule.

The State of New Jersey is a party to various legal actions arising in the ordinary course of business. While it is not possible at this time to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the Schedule.



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**Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133**

The Governor
State of New Jersey:

Compliance

We have audited the State of New Jersey's (the State) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010. The State's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

The schedule of expenditures of Federal awards and our audit described below does not include expenditures of Federal awards for those entities determined to be component units of the State of New Jersey for financial statement purposes. These entities may be required to have their own independent audit in compliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

Disclaimer

As described in items 10-1 and 10-2 in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of the State with the Medicaid Cluster and the Children's Health Insurance Program regarding activities allowed or unallowed, allowable costs/cost principles, and eligibility. Therefore, we were unable to express, and we do not express, an opinion on the compliance of the State with the requirements applicable to its Medicaid Cluster and Children's Health Insurance Program.



Qualifications

As identified in the following table and described in the accompanying schedule of findings and questioned costs, the State did not comply with certain compliance requirements that are applicable to certain of its major Federal programs. Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to the identified major Federal programs.

Federal awarding agency	State administering agency	Federal program	Compliance requirement	Finding number
U.S. Department of Agriculture/ U.S. Department of Health and Human Services	Department of Human Services/ Department of Health and Senior Services	SNAP Cluster (including ARRA)/TANF Cluster (including ARRA)/ CCDF Cluster (including ARRA)	Subrecipient monitoring	10-5
U.S. Department of Health and Human Services	Department of Human Services	Child Support Enforcement (including ARRA)	Reporting	10-6
U.S. Department of Health and Human Services	Department of Human Services	CCDF Cluster (including ARRA)	Subrecipient monitoring	10-7
U.S. Department of Health and Human Services	Department of Human Services	Block Grants for the Prevention and Treatment of Substance Abuse	Activities allowed or unallowed/ Allowable costs/ cost principles/ Period of availability/ Subrecipient monitoring	10-8
U.S. Department of Health and Human Services	Department of Human Services	Block Grants for the Prevention and Treatment of Substance Abuse	Subrecipient monitoring	10-9
U.S. Department of Education	Department of Human Services	Vocational Rehabilitation Cluster (including ARRA)	Activities allowed or unallowed/ Allowable costs/ cost principles	10-10
U.S. Department of Agriculture	Department of Agriculture	Child Nutrition Cluster	Special tests and provisions	10-15
U.S. Department of Health and Human Services	Department of Health and Senior Services	HIV Care Formula Grants	Earmarking	10-19
U.S. Department of Health and Human Services	Department of Health and Senior Services	Public Health Emergency Preparedness	Reporting	10-20
U.S. Department of Transportation	Department of Transportation	Highway Planning and Construction Cluster (including ARRA)	Davis-Bacon Act	10-24
U.S. Department of Transportation	Department of Transportation	Highway Planning and Construction Cluster (including ARRA)	Subrecipient monitoring	10-25
U.S. Department of Defense	Department of Military and Veterans Affairs	National Guard Military Operations and Maintenance (O&M) Projects (including ARRA)	Reporting	10-26



Federal awarding agency	State administering agency	Federal program	Compliance requirement	Finding number
Environmental Protection Agency	Department of Environmental Protection	Capitalization Grants for Clean Water State Revolving Funds (including ARRA)	Subrecipient monitoring/ Special tests and provisions	10-28
Environmental Protection Agency	Department of Environmental Protection	Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)	Subrecipient monitoring/ Special tests and provisions	10-29
U.S. Department of Health and Human Services	Department of Community Affairs	Low-Income Home Energy Assistance	Subrecipient monitoring	10-32

In our opinion, except for the noncompliance described in the preceding table, the State complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major Federal programs, except for Medicaid Cluster and Children's Health Insurance Program which we disclaimed an opinion as discussed in the fourth paragraph, for the year ended June 30, 2010. The results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10-3, 10-4, 10-11, 10-13, 10-14, 10-21, 10-31, and 10-33.

Internal Control over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the State's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items: 10-3, 10-5, 10-6, 10-7, 10-8, 10-9, 10-10, 10-12, 10-15, 10-16, 10-17, 10-19, 10-20, 10-24, 10-25, 10-26, 10-28, 10-29, and 10-32 to be material weaknesses.



A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items: 10-3, 10-4, 10-5, 10-6, 10-7, 10-8, 10-9, 10-10, 10-11, 10-12, 10-13, 10-14, 10-15, 10-16, 10-17, 10-18, 10-19, 10-20, 10-21, 10-22, 10-23, 10-24, 10-25, 10-26, 10-27, 10-28, 10-29, 10-30, 10-31, 10-32, and 10-33 to be significant deficiencies.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State's responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management of the State of New Jersey, others within the entity, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

April 25, 2011

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

(1) Summary of Auditors' Results

Basic Financial Statements

- (a) An unqualified opinion was issued by the State Auditor, State of New Jersey, on the basic financial statements of the State of New Jersey as of and for the year ended June 30, 2010.
- (b) The audit by the State Auditor, State of New Jersey, disclosed no material weaknesses and one significant deficiency was reported in connection with the basic financial statements of the State of New Jersey as of and for the year ended June 30, 2010.
- (c) The audit by the State Auditor, State of New Jersey disclosed no instances of noncompliance which are material to the basic financial statements of the State of New Jersey as of and for the year ended June 30, 2010.

Single Audit

- (d) This audit of Federal financial assistance disclosed material weaknesses and significant deficiencies which were reported in connection with major Federal programs of the State of New Jersey for the year ended June 30, 2010.
- (e) The type of report issued on compliance for major programs:

Disclaimer:

Medicaid Cluster (including ARRA)
Children's Health Insurance Program

Qualifications:

Block Grants for the Prevention and Treatment of Substance Abuse
SNAP Cluster (including ARRA)
TANF Cluster (including ARRA)
CCDF Cluster (including ARRA)
Child Support Enforcement (including ARRA)
Vocational Rehabilitation Cluster (including ARRA)
Child Nutrition Cluster
Low-Income Home Energy Assistance
HIV Care Formula Grants
Public Health Emergency Preparedness
Highway Planning and Construction Cluster (including ARRA)
National Guard Military Operations and Maintenance (O&M) Projects (including ARRA)
Capitalization Grants for Clean Water State Revolving Funds (including ARRA)
Capitalization Grants for Drinking Water State Revolving Funds (including ARRA)

The opinions for all other major programs are unqualified.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

- (f) There were audit findings which are required to be reported under Section 510(a) of OMB Circular A-133 for the year ended June 30, 2010.
- (g) The major Federal programs of the State of New Jersey for the year ended June 30, 2010 were as follows:

Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
U.S. Department of Agriculture			
Child Nutrition Cluster	10.553,	1NJ300304	10/1/01 - 9/30/02
	10.555, 10.556		
	10.559	1NJ300304	10/1/02 - 9/30/03
		1NJ300304	10/1/03 - 9/30/04
		1NJ300304	10/1/04 - 9/30/05
		1NJ300304	10/1/05 - 9/30/06
		1NJ300304	10/1/06 - 9/30/07
		1NJ300304	10/1/07 - 9/30/08
		1NJ300304	10/1/08 - 9/30/09
		1NJ300304	10/1/09 - 9/30/10

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
U.S. Department of Agriculture			
Child and Adult Care Food Program	10.558	1NJ300304	10/1/02 - 9/30/03
		1NJ300304	10/1/06 - 9/30/07
		1NJ300304	10/1/07 - 9/30/08
		1NJ300304	10/1/08 - 9/30/09
		1NJ300304	10/1/09 - 9/30/10
U.S. Department of Agriculture			
SNAP Cluster	10.551	12-35-344109	10/1/08 - 9/30/09
		12-35-344110	10/1/09 - 9/30/10
	10.561	12-35-344108	10/1/07 - 9/30/08
		12-35-344109	10/1/08 - 9/30/09
		12-35-344110	10/1/09 - 9/30/10
	10.561 (ARRA)	12-35-344110	10/1/09 - 9/30/10
U.S. Department of Agriculture			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	1NJ700704	10/1/07 - 9/30/08
		1NJ700704	10/1/08 - 9/30/09
		1NJ700704	10/1/09 - 9/30/10

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
U.S. Department of Defense			
National Guard Military Operations and Maintenance (O&M) Projects	12.401	DAHA280222001	10/1/01 - 12/31/11
		DAHA280421001	10/1/05 - 12/31/11
		DAHA280421002	10/1/06 - 6/30/11
		DAHA280421003	10/1/08 - 1/31/11
		DAHA280421004	10/1/07 - 1/31/11
		DAHA280421005	10/1/06 - 1/31/11
		DAHA280421007	10/1/09 - 1/31/11
		DAHA280421008	10/1/09 - 1/31/11
		DAHA280421010	10/1/08 - 12/31/11
		DAHA280421014	10/1/08 - 1/31/11
		DAHA280421021	10/1/06 - 12/31/11
		DAHA280421022	10/1/08 - 1/31/11
		DAHA280421023	10/1/08 - 1/31/11
		DAHA280421024	10/1/09 - 1/31/11
		DAHA280421040	10/1/08 - 1/31/11
	12.401 (ARRA)	W912-09-2-9001	5/20/09 - 12/31/11
		W912KN-09-2-9001	5/20/09 - 6/30/11

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Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
U.S. Department of Housing and Urban Development			
Housing Voucher Cluster	14.871	NJ912AF0055	7/1/09 - 7/31/09
		NJ912AF0056	7/1/09 - 7/31/09
		NJ912AFHV11	7/1/09 - 7/31/09
		NJ912AF0057	8/1/09 - 8/31/09
		NJ912AF2008	8/1/09 - 8/31/09
		NJ912AF0058	9/1/09 - 9/30/09
		NJ912AF0060	9/1/09 - 9/30/09
		NJ912VO0491	10/1/08 - 9/30/09
		NJ912VO0501	7/1/09 - 9/30/09
		NJ912AF0059	10/1/09 - 10/31/09
		NJ912VO0502	10/1/09 - 10/31/09
		NJ912AF0061	11/1/09 - 11/30/09
		NJ912VO0503	11/1/09 - 11/30/09
		NJ912AF0062	12/1/09 - 12/31/09
		NJ912AFHV12	12/1/09 - 12/31/09
		NJ912VO0504	12/1/09 - 12/31/09
		NJ912AF0063	1/1/10 - 2/28/10
		NJ912VO0505	1/1/10 - 2/28/10
		NJ912AF0064	3/1/10 - 3/31/10
		NJ912VO0506	3/1/10 - 3/31/10

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Year ended June 30, 2010

Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
U.S. Department of Housing and Urban Development			
Housing Voucher Cluster (continued)		NJ912AF0066	4/1/10 - 4/30/10
		NJ912AF0067	5/1/10 - 5/31/10
		NJ912AFHV13	5/1/10 - 5/31/10
		NJ912VOFFR1	5/1/10 - 5/31/10
		NJ912VOPR09	5/1/10 - 5/31/10
		NJ912AF0068	6/1/10 - 6/30/10
		NJ912AF2009	6/1/10 - 6/30/10
U.S. Department of Labor			
Unemployment Insurance	17.225	UI-14449-05-55	10/1/04 - 12/31/07
		UI-15135-06-55	10/1/05 - 12/31/08
		UI-15814-07-55	10/1/06 - 12/31/09
		UI-16762-08-55	10/1/07 - 12/31/10
		UI-18036-09-55	10/1/08 - 12/31/11
		UI-19598-10-55	10/1/09 - 12/31/12
	17.225 (ARRA)	UI-18036-09-55	10/1/08 - 12/31/11
U.S. Department of Labor			
Workforce Investment Act Cluster	17.258, 17.259, 17.260	AA-14690-05-55	4/01/05 - 6/30/08
		AA-15494-06-55	4/01/06 - 6/30/09
		AA-16044-07-55	4/01/07 - 6/30/10
		AA-17137-08-55	4/01/08 - 6/30/11
	17.258, 17.259, 17.260 (ARRA)	AA-17137-08-55	2/17/09 - 6/30/11

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Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
U.S. Department of Transportation			
Highway Planning and Construction Cluster	20.205	Various	Various
	20.205 (ARRA)	Various	Various
	20.219	Various	Various
Environmental Protection Agency			
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS340001-94	9/1/94 - 9/30/14
		CS340001-95	7/1/95 - 9/30/11
		CS340001-96	1/17/96 - 9/30/14
		CS340001-97	9/30/97 - 9/30/12
		CS340001-98	9/30/98 - 9/30/14
		CS340001-99	7/1/99 - 9/30/16
		CS340001-00	7/1/00 - 9/30/20
		CS340001-01	7/25/01 - 9/30/25
		CS342003-03	7/1/03 - 9/30/29
		CS340001-05	7/1/05 - 6/30/36
		CS340001-06	7/1/06 - 6/30/31
		CS340001-07	7/1/07 - 6/30/31
		CS340001-08	7/1/08 - 6/30/31
		CS340001-09	7/1/09 - 6/30/31
		CS340001-10	7/1/10 - 6/30/33
	66.458 (ARRA)	2W34000209	7/1/09 - 6/30/15

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Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
Environmental Protection Agency			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS992902-97	7/1/97 - 9/30/12
		FS992903-98	7/1/97 - 9/30/12
		FS992903-99	10/1/99 - 6/30/14
		FS992903-00	7/14/00 - 8/30/15
		FS992903-01	7/25/01 - 9/30/15
		FS992903-02	7/1/02 - 9/30/17
		FS992903-03	7/1/03 - 8/30/18
		FS992903-04	7/1/04 - 8/30/19
		FS992903-07	7/1/04 - 8/30/20
		FS992903-08	7/1/08 - 8/30/21
		FS992903-09	7/1/09 - 8/30/20
		FS992903-10	7/1/10 - 8/30/21
	66.468 (ARRA)	2F97231909	10/1/08 - 12/31/13
U.S. Department of Education			
Title I, Part A Cluster	84.010	S010A050030	7/1/05 - 9/30/06
		S010A060030	7/1/06 - 9/30/07
		S010A070030	7/1/07 - 9/30/08
		S010A080030	7/1/08 - 9/30/09
		S010A090030	7/1/09 - 9/30/10
	84.389 (ARRA)	S389A090030	2/17/09 - 9/30/10

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Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
U.S. Department of Education			
Federal Family Education Loan Program - Guaranty Agencies	84.032	N/A	7/1/06 - 6/30/07
		N/A	7/1/07 - 6/30/08
		N/A	7/1/08 - 6/30/09
		N/A	7/1/09 - 6/30/10
U.S. Department of Education			
Special Education Cluster (IDEA)	84.027	H027A050100A	7/1/05 - 9/30/06
		H027A060100A	7/1/06 - 9/30/07
		H027A070100A	7/1/07 - 9/30/08
		H027A080100A	7/1/08 - 9/30/09
		H027A090100A	7/1/09 - 9/30/10
	84.173	H173A050114	7/1/05 - 9/30/06
		H173A060114	7/1/06 - 9/30/07
		H173A070114	7/1/07 - 9/30/08
		H173A080114	7/1/08 - 9/30/09
		H173A080114	7/1/09 - 9/30/10
	84.391 (ARRA)	H391A090100A	2/17/09 - 9/30/10
	84.392 (ARRA)	H392A090114A	2/17/09 - 9/30/10

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Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
U.S. Department of Education			
Vocational Rehabilitation Cluster	84.126	H126A070043	10/1/06 - 9/30/07
		H126A080043	10/1/07 - 9/30/08
		H126A0800423	10/1/07 - 9/30/08
		H126A090043	10/1/08 - 9/30/09
		H126A0900423	10/1/08 - 9/30/09
		H126A100043	10/1/09 - 9/30/10
		H126A1000423	10/1/09 - 9/30/10
	84.390 (ARRA)	H390A090043	2/17/09 - 9/30/10
		H390A090044	2/17/09 - 12/31/11
U.S. Department of Education			
Improving Teacher Quality State Grants	84.367	S367A030029	7/1/03 - 9/30/04
		S367A040029	7/1/04 - 9/30/05
		S367A050029	7/1/05 - 9/30/06
		S367A060029	7/1/06 - 9/30/07
		S367A070029	7/1/07 - 9/30/08
		S367A080029A	7/1/08 - 9/30/09
		S367A090029A	7/1/09 - 9/30/10
		S367B030029	7/1/03 - 9/30/04
		S367B040029	7/1/04 - 9/30/05
		S367B050029	7/1/05 - 9/30/06
		S367B060027	7/1/06 - 9/30/07

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
U.S. Department of Education			
Improving Teacher Quality State Grants (continued)	84.367	S367B070027	7/1/07 - 9/30/08
		S367B080027	7/1/08 - 9/30/09
		S367B090027	7/1/09 - 9/30/10
U.S. Department of Education			
State Fiscal Stabilization Fund Cluster	84.394 (ARRA)	S394A090031	6/4/09 - 9/30/10
	84.397 (ARRA)	S397A090031	6/4/09 - 9/30/10
U.S. Department of Health & Human Services			
Public Health Emergency Preparedness (including nonmonetary)	93.069	5U90TP217004-09	8/10/08 - 8/9/09
		5U90TP217004-10	8/10/09 - 8/9/10
		1H75TP000372-01	7/31/09 - 7/30/11
U.S. Department of Health & Human Services			
Immunization Cluster	93.268	H23/CCH222576	1/1/09 - 12/31/09
		H23/CCH222576	1/1/10 - 12/31/10
	93.712 (ARRA)	ARRA	6/1/09 - 9/30/10

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
U.S. Department of Health & Human Services			
TANF Cluster	93.558	G0802NJTANF	10/1/07 - 9/30/09
		G0902NJTANF	10/1/08 - 9/30/11
		G1002NJTANF	10/1/09 - 9/30/12
	93.714 (ARRA)	G0901NJTAN2	10/1/09 - 9/30/11
U.S. Department of Health & Human Services			
Child Support Enforcement	93.563	G0804NJ4004	10/1/07 - 9/30/09
		G0904NJ4004	10/1/08 - 9/30/10
		G1004NJ4004	10/1/09 - 9/30/11
	93.563 (ARRA)	G0904NJ4002	10/1/09 - 9/30/12
		G1004NJ4004	10/1/09 - 9/30/12
U.S. Department of Health & Human Services			
Low-Income Home Energy Assistance	93.568	G-0601NJLIEA	10/1/05 - 9/30/07
		G-0701NJLIEA	10/1/06 - 9/30/08
		G-0801NJLIEA	10/1/07 - 9/30/09
		G-0901NJLIEA	10/1/08 - 9/30/10
		G-1001NJLIEA	10/1/09 - 9/30/11

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
U.S. Department of Health & Human Services			
CCDF Cluster	93.575	G0801NJCCD2	10/1/07 - 9/30/09
		G0901NJCCD2	10/1/08 - 9/30/10
		G1001NJCCD2	10/1/09 - 9/30/12
	93.596	G0801NJCCDA	10/1/07 - 9/30/09
		G0901NJCCDA	10/1/08 - 9/30/10
		G0901NJCCDF	10/1/08 - 9/30/10
		G1001NJCCDF	10/1/08 - 9/30/12
	93.713 (ARRA)	G0901NJCCD7	4/1/09 - 9/30/10
	U.S. Department of Health & Human Services		
Foster Care - Title IV-E	93.658	G0801NJ1401	10/1/07 - 9/30/09
		G0901NJ1401	10/1/08 - 9/30/10
	93.658 (ARRA)	G0902NJ1402	10/1/08 - 9/30/10
		G1002NJ1402	10/1/08 - 9/30/10
U.S. Department of Health & Human Services			
Adoption Assistance	93.659	G0801NJ1407	10/1/07 - 9/30/09
		G0901NJ1407	10/1/08 - 9/30/10
	93.659 (ARRA)	G0902NJ1403	10/1/08 - 9/30/10
		G1002NJ1403	10/1/08 - 9/30/10

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
U.S. Department of Health & Human Services			
Social Services Block Grant	93.667	0801NJSOSR	10/7/07 - 9/30/08
		0901NJSOSR	10/1/08 - 9/30/09
		1001NJSOSR	10/1/09 - 9/30/10
U.S. Department of Health & Human Services			
Children's Health Insurance Program	93.767	0705NJ5021	7/1/06 - 6/30/08
		0805NJ5021	7/1/07 - 6/30/09
		0905NJ5021	7/1/08 - 6/30/10
		1005NJ5021	7/1/09 - 6/30/11
U.S. Department of Health & Human Services			
Medicaid Cluster	93.775, 93.777, 93.778	0705NJ5028	7/1/06 - 6/30/08
		0705NJ5048	7/1/06 - 6/30/08
		0805NJ5028	7/1/07 - 6/30/09
		0805NJ5048	7/1/07 - 6/30/09
		0905NJ5048	7/1/08 - 6/30/10
		0905NJ5028	7/1/08 - 6/30/10
		1005NJ5MAP	7/1/09 - 6/30/11
		1005NJ5ADM	7/1/09 - 6/30/11
	93.778 (ARRA)	0905NJARRA	10/1/08 - 6/30/10
1005NJARRA		10/1/09 - 6/30/11	

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Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
U.S. Department of Health & Human Services			
HIV Care Formula Grants	93.917	6 X 07 HA 00017	4/1/04 - 3/31/05
		6 X 07 HA 00017	4/1/05 - 3/31/06
		6 X 07 HA 00017	4/1/06 - 3/31/07
		2 X 07 HA 00017	4/1/07 - 3/31/08
		2 X 07 HA 00017-18	4/1/08 - 3/31/09
		2 X 07 HA 0017-19	4/1/09 - 3/31/10
		2 X 07 HA 0017-11	4/1/10 - 3/31/11
U.S. Department of Health & Human Services			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	08B1NJSAPT	7/1/07 - 6/30/09
		09B1NJSAPT	7/1/08 - 6/30/10
		10B1NJSAPT	7/1/09 - 6/30/12
Social Security Administration			
Disability Insurance/SSI Cluster	96.001	DDDCOMB2007	10/1/06 - 9/30/07
		DDDCOMB2008	10/1/07 - 9/30/08
		DDDCOMB2009	10/1/08 - 9/30/09
		DDDCOMB2010	10/1/09 - 9/30/10

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Year ended June 30, 2010

(h) The dollar threshold used to distinguish between type A and type B programs was \$40,396,336 for Federal awards for the year ended June 30, 2010.

(i) The State of New Jersey did not qualify as a low risk auditee for the year ended June 30, 2010.

(2) Findings Related to the Basic Financial Statements Reported in Accordance with *Government Auditing Standards*:

Findings related to the basic financial statements of the State of New Jersey for the year ended June 30, 2010 were reported in accordance with *Government Auditing Standards* by the State Auditor, State of New Jersey, under separate cover.

(3) Findings and Questioned Costs Relating to Federal Awards:

See appendix of findings items 10-1 to 10-33.

APPENDIX OF FINDINGS

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

Medicaid Cluster (93.775, 93.777, 93.778)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 10-1 Disclaimer of Opinion: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility

Criteria

Activities Allowed or Unallowed

1. Funds can only be used for Medicaid benefit payments (as specified in the State plan, Federal regulations, or an approved waiver), expenditures for administration and training, expenditures for the State Survey and Certification Program, and expenditures for State Medicaid Fraud Control Units (42 CFR sections 435.10, 440.210, 440.220, and 440.180).
2. *Case Management Services* – The State plan may provide for case management services as an optional medical assistance service. The term “case management services” means services that will assist individuals eligible under the plan in gaining access to needed medical, social, educational, and other services.

Medicaid case management services are divided into two separate categories:

Administrative case management – Services must be identifiable with Title XIX benefit (e.g., outreach services provided by public school districts to Medicaid recipients).

Medical/targeted case management – Services must be provided to an eligible Medicaid recipient. Services do not have to be specifically medical in nature and can include securing shelter, personal needs, etc. (e.g., services provided by community mental health boards, county offices of aging).

Case management services is an area of risk because of the high growth of expenditures and prior experience that indicates problems with the documentation of case management expenditures.

With the exception of case management services provided through capitation (a process in which payment is made on a per beneficiary basis) or prepaid health plans, Federal regulations typically require the following documentation for case management services: date of service; name of recipient; name of provider agency and person providing the service; nature, extent, or units of service; and, place of service (Pub. L. No. 99-272, Section 9508; 42 CFR part 434).

3. *Managed Care* – A State may obtain a waiver of statutory requirements in order to develop a system that more effectively addresses the health care needs of its population. For example, a waiver may involve the use of a program of managed care for selected elements of the client population or allow the use of program funds to serve specified populations that would be otherwise ineligible (Section 1115 of the Social Security Act). Managed care providers must be eligible to participate in the program at the time services are rendered, payments to managed care plans should only be for eligible clients for the proper period, and the capitation payment should be properly calculated. Medicaid medical services payments (e.g., hospital and doctors charges) should not be made for services that are covered by

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

managed care. States should ensure that capitated payments to providers are discontinued when a beneficiary is no longer enrolled for services. Requirements related to beneficiaries' access to managed care services are covered under III.N.6 Special Tests and Provisions – Managed Care.

4. *Medicaid Health Insurance Premiums* – A State may enroll certain Medicare-eligible recipients under Medicare Part B and pay the premium, deductibles, cost sharing, and other charges (42 CFR section 431.625).
5. *Disproportionate Share Hospital* – Federal financial participation is available for aggregate payments to hospitals that serve a disproportionate number of low-income patients with special needs. The State plan must specifically define a disproportionate share hospital and the method of calculating the rate for these hospitals. Specific limits for the total disproportionate share hospital payments for the State and the individual hospitals are contained in the legislation (Section 1923 of the Social Security Act and 42 USC 1396(r)).
6. *Home and Community-Based Services* – A State may obtain a waiver of statutory requirements to provide an array of home and community-based services which may permit an individual to avoid institutionalization (42 CFR part 441, subpart G). The HHS OIG has issued a special fraud alert concerning home health care. Problems noted include cost report frauds, billing for excessive services or services not rendered, and use of unlicensed staff. The full alert was published in the *Federal Register* on August 10, 1995, (page 40847) and is available on the Internet from the HHS OIG home page, Special Fraud Alerts section (<http://oig.hhs.gov/fraud/fraudalerts.html>).

Allowable Costs/Cost Principles

Recoveries, Refunds, and Rebates (Costs must be the net of all applicable credits)

1. States must have a system to identify medical services that are the legal obligation of third parties, such as private health or accident insurers. Such third-party resources should be exhausted prior to paying claims with program funds. Where a third-party liability is established after the claim is paid, reimbursement from the third party should be sought (42 CFR sections 433.135 through 433.154).
2. The State is required to credit the Medicaid program for (1) State warrants that are canceled and uncashed checks beyond 180 days of issuance (escheated warrants) and (2) overpayments made to providers of medical services within specified time frames. In most cases, the State must refund provider overpayments to the Federal Government within 60 days of identification of the overpayment, regardless of whether the overpayment was collected from the provider (42 CFR sections 433.300 through 433.320, and 433.40).
3. Section 1903(w)(1) of the Social Security Act (as amended by Pub. L. No. 102-234) provides that, effective January 1, 1992, before calculating the amount of Federal financial participation, certain revenues received by a State will be deducted from the State's medical assistance expenditures. The revenues to be deducted are (1) donations made by health providers and entities related to providers (except for *bona fide* donations and, subject to a limitation, donations made by providers for the direct costs of out-stationed eligibility workers); and (2) impermissible health care-related taxes that exceed a specified limit (42 USC 1396(b)(w); 42 CFR section 433.57).

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Year ended June 30, 2010

“Provider-related donations” are any donations or other voluntary payments (in-cash or in-kind) made directly or indirectly to a State or unit of local government by (1) a health care provider, (2) an entity related to a health care provider, or (3) an entity providing goods or services under the State plan and paid as administrative expenses. “Bona fide provider-related donations” are donations that have no direct or indirect relationship to payments made under Title XIX (42 USC 1396 *et seq.*) to (1) that provider, (2) providers furnishing the same class of items and services as that provider, or (3) any related entity (42 CFR sections 433.58(d) and 433.66(b)).

Permissible health care-related taxes are those taxes which are broad-based taxes, uniformly applied to a class of health care items, services, or providers, and which do not hold a taxpayer harmless for the costs of the tax, or a tax program for which CMS has granted a waiver. Health care-related taxes that do not meet these requirements are impermissible health care-related taxes (42 CFR section 433.68(b)).

The provisions of Pub. L. No. 102-234 apply to all 50 States and the District of Columbia, except those States whose entire Medicaid program is operated under a waiver granted under section 1115 of the Social Security Act (42 CFR part 433; *Federal Register*, August 13, 1993, 58 FR 43156-43183).

4. Section 1927 of the Social Security Act allows States to receive rebates for drug purchases the same as other payers receive. Drug manufacturers are required to provide a listing to CMS of all covered outpatient drugs and, on a quarterly basis, are required to provide their average manufacturer’s price and their best prices for each covered outpatient drug. Based on these data, CMS calculates a unit rebate amount for each drug, which it then provides to States. No later than 60 days after the end of the quarter, the State Medicaid agency must provide to manufacturers drug utilization data. Within 30 days of receipt of the utilization data from the State, the manufacturers are required to pay the rebate or provide the State with written notice of disputed items not paid because of discrepancies found.

Eligibility for Individuals

- a. States have flexibility in determining eligibility levels for individuals for whom the State will receive enhanced matching funds within the guidelines established under the Act. Generally, a State may not cover children with higher family income without covering children with a lower family income, nor deny eligibility based on a child having a preexisting medical condition. States are required to include in their State plans a description of the standards used to determine eligibility of targeted low-income children. State plans should be consulted for specific information concerning individual eligibility requirements (42 USC 1397bb(b)).

States have the option to extend eligibility to low-income targeted pregnant women. There is no income eligibility level for pregnant women in CHIP that is lower than the State’s Medicaid level, and States must cover pregnant women up to 185% of the Federal poverty level before they can elect the option to include pregnant women in the CHIP State plan (Pub. L. No. 111-3, Section 111).

- b. Qualified aliens, as defined at 8 USC 1641, who entered the United States on or after August 22, 1996, are not eligible for a separate child health program under title XXI (CHIP) for a period of five years, beginning on the date the alien became a qualified alien, unless the alien is exempt from this five year bar under the terms of 8 USC 1613. States must provide coverage under a separate child health program under title XXI to all other otherwise eligible qualified aliens who are not barred from coverage under 8 USC 1613 (42 CFR section 457.320(b)(6)).

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- c. States may elect to provide medical assistance, notwithstanding section 401(a), 402(b), 403, and 421 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, to children and pregnant women who are lawfully residing in the United States and who are otherwise eligible for such assistance. This optional coverage in CHIP is only applicable if the State has elected to apply this allowance with respect to such category of children or pregnant women under title XIX Pub. L. No. 111-3, Section 214).

Condition

The State of New Jersey, Department of Human Services, Division of Medical Assistance and Health Services, utilizes its Bureau of Quality Control (the Bureau) to perform Medicaid Eligibility Quality Control (MEQC) and Payment Error Rate Measurement positive case reviews of eligibility determinations, performed by the respective County Welfare Agencies (CWAs).

Our audit noted the Bureau did not perform any MEQC eligibility reviews for the period July 1, 2009 through June 30, 2010.

Total program expenditures for Medicaid included on the schedule of expenditures of federal awards were \$5,911,356,894 for the State fiscal year 2010.

A similar finding was included in the 2009, 2008 and 2007 prior year single audit reports as items 09-1, 08-1 and 07-42, respectively.

Cause

The Bureau did not perform all case reviews within the specified time periods.

Effect

Payments under the Medicaid program may be processed on behalf of ineligible clients for services received in a given fiscal year.

Recommendation

We recommend that the Department implement procedures to monitor and perform eligibility reviews of eligibility determinations performed at the CWAs on a timely basis.

Related Noncompliance

We were unable to determine compliance with the above requirements.

Questioned Costs

Cannot be determined

View of Responsible Official

See management's corrective action plan.

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Children's Health Insurance Program (93.767)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 10-2 Disclaimer of Opinion: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility

Criteria

Activities Allowed or Unallowed

1. *Activities Allowed* – States have general flexibility in allocating their individual allotments toward activities needed to conduct the CHIP (42 USC 1397ee(a)). In addition to expenditures for child health assistance under the plan for targeted low-income children, other allowable activities, to the extent permitted by 42 USC 1397ee(c), include payment of other child health assistance for targeted low-income children; expenditures for health services initiatives for improving the health of children (targeted and other low income) under the plan; expenditures for outreach activities; and other reasonable costs incurred by the State to administer the plan (42 USC 1397ee).
2. *Activities Unallowed* – Federal funds may not be expended under the State plan to pay for any abortion or to assist in the purchase, in whole or in part, of health coverage that includes coverage of abortion, except if necessary to save the life of the mother or if the pregnancy is the result of incest or rape (42 USC 1397ee(c)).

Allowable Costs/Cost Principles

a. Basic Guidelines

The basic guidelines affecting allowability of costs are identified in OMB Circular A-87 (A-87), Attachment A, section C. Cost must meet the following general criteria to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, paragraph C.2 for additional information on reasonableness of costs.)
- (b) Be allocable to Federal awards under the provisions of A-87. (Refer to A-87, Attachment A, paragraph C.3 for additional information on allocable costs.)
- (c) Be authorized or not prohibited under State or local laws or regulations.
- (d) Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- (e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

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- (f) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- (g) Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87.
- (h) Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.
- (i) Be net of all applicable credits. (Refer to A-87, Attachment A, paragraph C.4 for additional information on applicable credits.)
- (j) Be adequately documented.

b. Selected Items of Cost

- (1) Sections 1 through 43 of A-87, Attachment B, provide the principles to be applied in establishing the allowability or unallowability of certain items of cost. (For a listing of costs, refer to Exhibit 1 of this part of the Supplement.) These principles apply whether a cost is treated as direct or indirect. Failure to mention a particular item of cost in this section of A-87 is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment or standards provided for similar or related items of cost.
- (2) A cost is allowable for Federal reimbursement only to the extent of benefits received by Federal awards and its conformance with the general policies and principles stated in A-87, Attachment A.

c. Submission Requirements

- (1) Submission requirements are identified in A-87, Attachment C, paragraph D.
- (2) A State is required to submit a State-wide central service CAP to HHS for each year in which it claims central service costs under Federal awards.
- (3) A local government that has been designated as a “major local government” by OMB is required to submit a central service CAP to its cognizant agency annually. All other local governments claiming central service costs must develop a CAP in accordance with the requirements described in A-87 and maintain the plan and related supporting documentation for audit. Local governments are not required to submit the plan for Federal approval unless they are specifically requested to do so by the cognizant agency. If a local government receives funds as a subrecipient only, the primary recipient will be responsible for negotiating and/or monitoring the local government’s plan.
- (4) All central service CAPs will be prepared and, when required, submitted within the 6 months prior to the beginning of the governmental unit’s fiscal years in which it proposes to claim central service costs. Extensions may be granted by the cognizant agency.

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d. Documentation Requirements

- (1) The central service CAP must include all central service costs that will be claimed (either as an allocated or a billed cost) under Federal awards. Costs of central services omitted from the CAP will not be reimbursed.
- (2) The documentation requirements for all central service CAPs are contained in A-87, Attachment C, paragraph E. All plans and related documentation used as a basis for claiming costs under Federal awards must be retained for audit in accordance with the record retention requirements contained in the A-102 Common Rule.

e. Required Certification – No proposal to establish a central service CAP, whether submitted to a Federal cognizant agency or maintained on file by the governmental unit, shall be accepted and approved unless such costs have been certified by the governmental unit using the Certificate of Cost Allocation Plan as set forth in A-87, Attachment C.

f. Allocated Central Service Costs (Section I Costs) – A carry-forward adjustment is not permitted for a central service activity that was not included in the previously approved plan or for unallowable costs that must be reimbursed immediately (A-87, Attachment C, paragraph G.3).

g. Billed Central Service Costs (Section II Costs)

- (1) Internal service funds for central service activities are allowed a working capital reserve of up to 60 days cash expenses for normal operating purposes (A-87, Attachment C, paragraph G.2). A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases.
- (2) Adjustments of billed central services are required when there is a difference between the revenue generated by each billed service and the actual allowable costs (A-87, Attachment C, paragraph G.4). The adjustments will be made through one of the following methods:
 - (a) A cash refund to the Federal Government for the Federal share of the adjustment, if revenue exceeds costs,
 - (b) Credits to the amounts charged to the individual programs,
 - (c) Adjustments to future billing rates, or
 - (d) Adjustments to allocated central service costs (Section I) if the total amount of the adjustment for a particular service does not exceed \$500,000.
- (3) Whenever funds are transferred from a self-insurance reserve to other accounts (e.g., general fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer (A-87, Attachment B, paragraph 22).

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Eligibility for Individuals

- a. States have flexibility in determining eligibility levels for individuals for whom the State will receive enhanced matching funds within the guidelines established under the Act. Generally, a State may not cover children with higher family income without covering children with a lower family income, nor deny eligibility based on a child having a preexisting medical condition. States are required to include in their State plans a description of the standards used to determine eligibility of targeted low-income children. State plans should be consulted for specific information concerning individual eligibility requirements (42 USC 1397bb(b)).

States have the option to extend eligibility to low-income targeted pregnant women. There is no income eligibility level for pregnant women in CHIP that is lower than the State's Medicaid level, and States must cover pregnant women up to 185% of the Federal poverty level before they can elect the option to include pregnant women in the CHIP State plan (Pub. L. No. 111-3, Section 111).

- b. Qualified aliens, as defined at 8 USC 1641, who entered the United States on or after August 22, 1996, are not eligible for a separate child health program under title XXI (CHIP) for a period of five years, beginning on the date the alien became a qualified alien, unless the alien is exempt from this five year bar under the terms of 8 USC 1613. States must provide coverage under a separate child health program under title XXI to all other otherwise eligible qualified aliens who are not barred from coverage under 8 USC 1613 (42 CFR section 457.320(b)(6)).
- c. States may elect to provide medical assistance, notwithstanding section 401(a), 402(b), 403, and 421 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, to children and pregnant women who are lawfully residing in the United States and who are otherwise eligible for such assistance. This optional coverage in CHIP is only applicable if the State has elected to apply this allowance with respect to such category of children or pregnant women under title XIX Pub. L. No. 111-3, Section 214).

Condition

The State of New Jersey, Department of Human Services, Division of Medical Assistance and Health Services, utilizes its Bureau of Quality Control (the Bureau) to perform Medicaid Eligibility Quality Control (MEQC) and Payment Error Rate Measurement positive case reviews of eligibility determinations performed by the respective County Welfare Agencies (CWAs) for recipients under the Children's Health Insurance Program (CHIP).

The Bureau did not perform any eligibility reviews for the period January 1, 2010 through June 30, 2010.

Total program expenditures for CHIP included on the schedule of expenditures of federal awards was \$528,105,475 for the State fiscal year 2010.

Cause

The Bureau did not perform all case reviews within the specified time periods.

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Effect

Payments under the CHIP program may be processed on behalf of ineligible clients for services received in a given fiscal year.

Recommendation

We recommend that the Department implement procedures to monitor and perform eligibility reviews of eligibility determinations performed at the CWAs on a timely basis.

Related Noncompliance

We were unable to determine compliance with the above requirements.

Questioned Costs

Cannot be determined

View of Responsible Official

See management's corrective action plan.

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Medicaid Cluster (93.775, 93.777, 93.778)

State Agency: Department of Health and Senior Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 10-3 Suspension and Debarment

Criteria

Governmentwide requirements for nonprocurement suspension and debarment are contained in the OMB guidance in 2 CFR part 180, which implements Executive Orders 12549 and 12689, Debarment and Suspension. The OMB guidance, which superseded the suspension and debarment common rule published November 26, 2003, is substantially the same as that rule.

Nonfederal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 2 CFR section 180.220 of the governmentwide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a nonfederal entity enters into a covered transaction with an entity at a lower-tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300). The information contained in the EPLS is available in printed and electronic formats. The printed version is published monthly. Copies may be obtained by purchasing a yearly subscription from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, or by calling the Government Printing Office Inquiry and Order Desk at (202) 783-3238. The electronic version can be accessed on the Internet (<http://epls.arnet.gov>).

Condition

The Department does not have a process in place to ensure that subrecipients are not suspended and debarred. Based on our audit procedures, none of the subrecipients were listed on the Excluded Parties List System maintained by General Services Administration (GSA), and therefore do not appear to be suspended or debarred.

The amounts passed to subrecipients for the State fiscal year 2010 was \$5,134,636,421.

Cause

The Department did not obtain suspension and debarment certifications from the program's subrecipients.

Effect

Federal funds could be granted to subrecipients that have been suspended or debarred.

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Recommendation

We recommend that the Department implement procedures to obtain suspension and debarment certifications from all subrecipients.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

Cannot be determined

View of Responsible Official

See management's corrective action plan.

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Children's Health Insurance Program (93.767)

Medicaid Cluster (93.775, 93.777, 93.778)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 10-4 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Criteria

Children's Health Insurance Program – Program Specific

Activities Allowed or Unallowed

1. *Activities Allowed* – States have general flexibility in allocating their individual allotments toward activities needed to conduct the CHIP (42 USC 1397ee(a)). In addition to expenditures for child health assistance under the plan for targeted low-income children, other allowable activities, to the extent permitted by 42 USC 1397ee(c), include payment of other child health assistance for targeted low-income children; expenditures for health services initiatives for improving the health of children (targeted and other low income) under the plan; expenditures for outreach activities; and other reasonable costs incurred by the State to administer the plan (42 USC 1397ee).
2. *Activities Unallowed* – Federal funds may not be expended under the State plan to pay for any abortion or to assist in the purchase, in whole or in part, of health coverage that includes coverage of abortion, except if necessary to save the life of the mother or if the pregnancy is the result of incest or rape (42 USC 1397ee(c)).

Medicaid Cluster – Program Specific

Activities Allowed or Unallowed

1. Funds can only be used for Medicaid benefit payments (as specified in the State plan, Federal regulations, or an approved waiver), expenditures for administration and training, expenditures for the State Survey and Certification Program, and expenditures for State Medicaid Fraud Control Units (42 CFR sections 435.10, 440.210, 440.220, and 440.180).
2. *Case Management Services* – The State plan may provide for case management services as an optional medical assistance service. The term “case management services” means services that will assist individuals eligible under the plan in gaining access to needed medical, social, educational, and other services.

Medicaid case management services are divided into two separate categories:

Administrative case management – Services must be identifiable with Title XIX benefit (e.g., outreach services provided by public school districts to Medicaid recipients).

Medical/targeted case management – Services must be provided to an eligible Medicaid recipient. Services do not have to be specifically medical in nature and can include securing shelter, personal needs, etc. (e.g., services provided by community mental health boards, county offices of aging).

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Case management services is an area of risk because of the high growth of expenditures and prior experience that indicates problems with the documentation of case management expenditures.

With the exception of case management services provided through capitation (a process in which payment is made on a per beneficiary basis) or prepaid health plans, Federal regulations typically require the following documentation for case management services: date of service; name of recipient; name of provider agency and person providing the service; nature, extent, or units of service; and, place of service (Pub. L. No. 99-272, Section 9508; 42 CFR part 434).

3. *Managed Care* – A State may obtain a waiver of statutory requirements in order to develop a system that more effectively addresses the health care needs of its population. For example, a waiver may involve the use of a program of managed care for selected elements of the client population or allow the use of program funds to serve specified populations that would be otherwise ineligible (Section 1115 of the Social Security Act). Managed care providers must be eligible to participate in the program at the time services are rendered, payments to managed care plans should only be for eligible clients for the proper period, and the capitation payment should be properly calculated. Medicaid medical services payments (e.g., hospital and doctors charges) should not be made for services that are covered by managed care. States should ensure that capitated payments to providers are discontinued when a beneficiary is no longer enrolled for services. Requirements related to beneficiaries' access to managed care services are covered under III.N.6 Special Tests and Provisions – Managed Care.
4. *Medicaid Health Insurance Premiums* – A State may enroll certain Medicare-eligible recipients under Medicare Part B and pay the premium, deductibles, cost sharing, and other charges (42 CFR section 431.625).
5. *Disproportionate Share Hospital* – Federal financial participation is available for aggregate payments to hospitals that serve a disproportionate number of low-income patients with special needs. The State plan must specifically define a disproportionate share hospital and the method of calculating the rate for these hospitals. Specific limits for the total disproportionate share hospital payments for the State and the individual hospitals are contained in the legislation (Section 1923 of the Social Security Act and 42 USC 1396(r)).
6. *Home and Community-Based Services* – A State may obtain a waiver of statutory requirements to provide an array of home and community-based services which may permit an individual to avoid institutionalization (42 CFR part 441, subpart G). The HHS OIG has issued a special fraud alert concerning home health care. Problems noted include cost report frauds, billing for excessive services or services not rendered, and use of unlicensed staff. The full alert was published in the *Federal Register* on August 10, 1995, (page 40847) and is available on the Internet from the HHS OIG home page, Special Fraud Alerts section (<http://oig.hhs.gov/fraud/fraudalerts.html>).

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Allowable Costs/Cost Principles

Recoveries, Refunds, and Rebates (Costs must be the net of all applicable credits)

1. States must have a system to identify medical services that are the legal obligation of third parties, such as private health or accident insurers. Such third-party resources should be exhausted prior to paying claims with program funds. Where a third-party liability is established after the claim is paid, reimbursement from the third party should be sought (42 CFR sections 433.135 through 433.154).
2. The State is required to credit the Medicaid program for (1) State warrants that are canceled and uncashed checks beyond 180 days of issuance (escheated warrants) and (2) overpayments made to providers of medical services within specified time frames. In most cases, the State must refund provider overpayments to the Federal Government within 60 days of identification of the overpayment, regardless of whether the overpayment was collected from the provider (42 CFR sections 433.300 through 433.320, and 433.40).
3. Section 1903(w)(1) of the Social Security Act (as amended by Pub. L. No. 102-234) provides that, effective January 1, 1992, before calculating the amount of Federal financial participation, certain revenues received by a State will be deducted from the State's medical assistance expenditures. The revenues to be deducted are (1) donations made by health providers and entities related to providers (except for *bona fide* donations and, subject to a limitation, donations made by providers for the direct costs of out-stationed eligibility workers); and (2) impermissible health care-related taxes that exceed a specified limit (42 USC 1396(b)(w); 42 CFR section 433.57).

"Provider-related donations" are any donations or other voluntary payments (in-cash or in-kind) made directly or indirectly to a State or unit of local government by (1) a health care provider, (2) an entity related to a health care provider, or (3) an entity providing goods or services under the State plan and paid as administrative expenses. "Bona fide provider-related donations" are donations that have no direct or indirect relationship to payments made under Title XIX (42 USC 1396 *et seq.*) to (1) that provider, (2) providers furnishing the same class of items and services as that provider, or (3) any related entity (42 CFR sections 433.58(d) and 433.66(b)).

Permissible health care-related taxes are those taxes which are broad-based taxes, uniformly applied to a class of health care items, services, or providers, and which do not hold a taxpayer harmless for the costs of the tax, or a tax program for which CMS has granted a waiver. Health care-related taxes that do not meet these requirements are impermissible health care-related taxes (42 CFR section 433.68(b)).

The provisions of Pub. L. No. 102-234 apply to all 50 States and the District of Columbia, except those States whose entire Medicaid program is operated under a waiver granted under section 1115 of the Social Security Act (42 CFR part 433; *Federal Register*, August 13, 1993, 58 FR 43156-43183).

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4. Section 1927 of the Social Security Act allows States to receive rebates for drug purchases the same as other payers receive. Drug manufacturers are required to provide a listing to CMS of all covered outpatient drugs and, on a quarterly basis, are required to provide their average manufacturer's price and their best prices for each covered outpatient drug. Based on these data, CMS calculates a unit rebate amount for each drug, which it then provides to States. No later than 60 days after the end of the quarter, the State Medicaid agency must provide to manufacturers drug utilization data. Within 30 days of receipt of the utilization data from the State, the manufacturers are required to pay the rebate or provide the State with written notice of disputed items not paid because of discrepancies found.

Allowable Costs/Cost Principles – General Requirements

a. Basic Guidelines

The basic guidelines affecting allowability of costs are identified in OMB Circular A-87 (A-87), Attachment A, section C. Cost must meet the following general criteria to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, paragraph C.2 for additional information on reasonableness of costs.)
- (b) Be allocable to Federal awards under the provisions of A-87. (Refer to A-87, Attachment A, paragraph C.3 for additional information on allocable costs.)
- (c) Be authorized or not prohibited under State or local laws or regulations.
- (d) Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- (e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- (f) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- (g) Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87.
- (h) Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.
- (i) Be net of all applicable credits. (Refer to A-87, Attachment A, paragraph C.4 for additional information on applicable credits.)
- (j) Be adequately documented.

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b. Selected Items of Cost

- (1) Sections 1 through 43 of A-87, Attachment B, provide the principles to be applied in establishing the allowability or unallowability of certain items of cost. (For a listing of costs, refer to Exhibit 1 of this part of the Supplement.) These principles apply whether a cost is treated as direct or indirect. Failure to mention a particular item of cost in this section of A-87 is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment or standards provided for similar or related items of cost.
- (2) A cost is allowable for Federal reimbursement only to the extent of benefits received by Federal awards and its conformance with the general policies and principles stated in A-87, Attachment A.

c. Submission Requirements

- (1) Submission requirements are identified in A-87, Attachment C, paragraph D.
- (2) A State is required to submit a State-wide central service CAP to HHS for each year in which it claims central service costs under Federal awards.
- (3) A local government that has been designated as a “major local government” by OMB is required to submit a central service CAP to its cognizant agency annually. All other local governments claiming central service costs must develop a CAP in accordance with the requirements described in A-87 and maintain the plan and related supporting documentation for audit. Local governments are not required to submit the plan for Federal approval unless they are specifically requested to do so by the cognizant agency. If a local government receives funds as a subrecipient only, the primary recipient will be responsible for negotiating and/or monitoring the local government’s plan.
- (4) All central service CAPs will be prepared and, when required, submitted within the 6 months prior to the beginning of the governmental unit’s fiscal years in which it proposes to claim central service costs. Extensions may be granted by the cognizant agency.

d. Documentation Requirements

- (1) The central service CAP must include all central service costs that will be claimed (either as an allocated or a billed cost) under Federal awards. Costs of central services omitted from the CAP will not be reimbursed.
- (2) The documentation requirements for all central service CAPs are contained in A-87, Attachment C, paragraph E. All plans and related documentation used as a basis for claiming costs under Federal awards must be retained for audit in accordance with the record retention requirements contained in the A-102 Common Rule.

e. Required Certification – No proposal to establish a central service CAP, whether submitted to a Federal cognizant agency or maintained on file by the governmental unit, shall be accepted and approved unless such costs have been certified by the governmental unit using the Certificate of Cost Allocation Plan as set forth in A-87, Attachment C.

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f. Allocated Central Service Costs (Section I Costs) – A carry-forward adjustment is not permitted for a central service activity that was not included in the previously approved plan or for unallowable costs that must be reimbursed immediately (A-87, Attachment C, paragraph G.3).

g. Billed Central Service Costs (Section II Costs)

- (1) Internal service funds for central service activities are allowed a working capital reserve of up to 60 days cash expenses for normal operating purposes (A-87, Attachment C, paragraph G.2). A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases.
- (2) Adjustments of billed central services are required when there is a difference between the revenue generated by each billed service and the actual allowable costs (A-87, Attachment C, paragraph G.4). The adjustments will be made through one of the following methods:
 - (a) A cash refund to the Federal Government for the Federal share of the adjustment, if revenue exceeds costs,
 - (b) Credits to the amounts charged to the individual programs,
 - (c) Adjustments to future billing rates, or
 - (d) Adjustments to allocated central service costs (Section I) if the total amount of the adjustment for a particular service does not exceed \$500,000.
- (3) Whenever funds are transferred from a self-insurance reserve to other accounts (e.g., general fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer (A-87, Attachment B, paragraph 22).

Condition

The Department of Human Services, Division of Medical Assistance and Health Services (the Division), prepares quarterly cost allocation plans to allocate costs for each of its programs and for central operations of the Division. We tested a sample of underlying transactions allocated by each of the quarterly cost allocation plans during State fiscal year 2010 plans and noted the following exception:

- The Department did not properly review one timesheet and therefore incorrectly paid the employee for an additional 8.5 hours over actual as the employee took paid time off. The total amount of overpayment for this timesheet was approximately \$360. Total personal service expenditures included in the sample was \$73,640. Total personal service expenditures from which the sample was drawn were \$2,008,402 and total aggregate personal service expenditures for the programs noted above were \$583,625,187 during State fiscal year 2010.

Cause

Personal services transactions were not properly reviewed.

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Effect

Personal services expenditures may not be appropriately reviewed and approved and may not be appropriately allocated or documented.

Recommendation

We recommend that the Department strengthen internal controls over the process for proper review and authorization of personal services expenditures and to ensure supporting documentation for personal services expenditures is properly maintained.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirements.

Questioned Costs

\$360

View of Responsible Official

See management's corrective action plan.

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SNAP Cluster (10.551, 10.561)

TANF Cluster (93.558, 93.714)

CCDF Cluster (93.575, 93.596, 93.713)

Medicaid Cluster (93.775, 93.777, 93.778)

State Agency: Department of Human Services

Department of Health and Senior Services

Federal Agency: U.S. Department of Agriculture

U.S. Department of Health and Human Services

Finding: 10-5 Subrecipient Monitoring

Criteria

A pass-through entity is responsible for:

- *Award Identification* – At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 (or \$300,000 prior to that date) as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Ensuring Accountability of For-Profit Subrecipients* – Awards also may be passed through to for-profit entities. For-profit subrecipients are accountable to the pass-through entity for the use of Federal funds provided. Because for-profit subrecipients are not subject to the audit requirements of OMB Circular A-133, pass-through entities are responsible for establishing requirements, as needed, to ensure for-profit subrecipient accountability for the use of funds.
- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.
- *Central Contractor Registration* – Identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal

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Numbering System (DUNS) number, and maintain the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)).

During-the-Award Monitoring

Following are examples of factors that may affect the nature, timing, and extent of during-the-award monitoring:

- *Program complexity* – Programs with complex compliance requirements have a higher risk of noncompliance.
- *Percentage passed through* – The larger the percentage of program awards passed through the greater the need for subrecipient monitoring.
- *Amount of awards* – Larger dollar awards are of greater risk.
- *Subrecipient risk* – Subrecipients may be evaluated as higher risk or lower risk to determine the need for closer monitoring. Generally, new subrecipients would require closer monitoring. For existing subrecipients, based on results of during-the-award monitoring and subrecipient audits, a subrecipient may warrant closer monitoring (e.g., the subrecipient has (1) a history of noncompliance as either a recipient or subrecipient, (2) new personnel, or (3) new or substantially changed systems).

Monitoring activities normally occur throughout the year and may take various forms, such as:

- *Reporting* – Reviewing financial and performance reports submitted by the subrecipient.
- *Site Visits* – Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- *Regular Contact* – Regular contacts with subrecipients and appropriate inquiries concerning program activities.

Condition

The Departments did not verify on the Central Contractor Registration (CCR) that all subrecipients, which include County Welfare Agencies (CWAs), Child Care Resource and Referral (CCR&R) agencies and other long-term care facilities, were currently registered, as required by the American Recovery and Reinvestment Act of 2009 (ARRA).

Total ARRA funds passed through to the subrecipients during State fiscal year 2010 were as follows: SNAP Cluster – \$3,766,384 (State Administrative Matching Grants); TANF Cluster – \$4,681,153; CCDF Cluster – \$18,717,852; and Medicaid Cluster – \$1,067,312,403 (of which \$761,360,009 relates to the Department of Human Services and \$275,926,394 relates to the Department of Health and Senior Services).

Cause

The Departments did not have a process in place to verify that all subrecipients receiving ARRA funds had a valid CCR registration.

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Effect

ARRA funds may be passed through to subrecipients who are not in compliance with the requirements under ARRA.

Recommendation

We recommend that the Departments ensure that all subrecipients receiving ARRA funds are properly registered on the CCR and documentation of such review is maintained by the Departments.

Related Noncompliance

Based on the above, the Departments were not in compliance with the above requirement.

Questioned Costs

Cannot be determined

View of Responsible Official

See management's corrective action plan.

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Child Support Enforcement (93.563)

ARRA – Child Support Enforcement (93.563)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 10-6 Reporting

Criteria

The state is required to submit the OCSE 34A Child Support Enforcement Quarterly Report of Collections (OMB No. 0970 0181).

Condition

The information used to compile the OCSE 34A Child Support Enforcement Program Quarterly Report of Collections is collected from the Automated Child Support Enforcement (ACSES) system. The Department of Human Services prepares monthly and quarterly reconciliations to compare the collections and distributions for the month and the quarter from the OCSE 34A report to the child support bank accounts. After preparation of the reconciliations, there are remaining irreconcilable differences, which vary on a monthly and quarterly basis from approximately \$19.7 million to \$57.6 million. The Department of Human Services identified possible general reasons for the differences, which cannot be substantiated.

A similar finding was included in the 2009, 2008, 2007, 2006, 2005, 2004, 2003, 2003, 2002, 2001 and 2000 prior year single audit reports as items 09-7, 08-2, 07-5, 06-1, 05-7, 04-18, 03-7, 02-6, 01-6, and 00-30, respectively.

Cause

The transaction volume in ACSES and the child support bank accounts is very large, and many transactions have additional information which cannot be captured through the manual reconciliation process. There are no specific system produced reports addressing all reconciling items. The Department expects the unexplained differences will continue until the re-engineering of ACSES is completed.

Effect

There are remaining unexplained differences between the OCSE 34A report of collections and distributions and the bank account transactions.

Recommendation

We recommend that the Department continue to perform reconciliations between the child support bank accounts and OCSE 34A report, and improve the reconciliation procedures and methodology.

Related Noncompliance

Based on the above, the Department was not fully in compliance with the above requirement.

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Questioned Costs

\$19.7 million to \$57.6 million (Represents the unreconciled differences range)

View of Responsible Official

See management's corrective action plan.

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CCDF Cluster (93.575, 93.596, 93.713)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 10-7 Subrecipient Monitoring

Criteria

A pass-through entity is responsible for:

- *Award Identification* – At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 (or \$300,000 prior to that date) as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Ensuring Accountability of For-Profit Subrecipients* – Awards also may be passed through to for-profit entities. For-profit subrecipients are accountable to the pass-through entity for the use of Federal funds provided. Because for-profit subrecipients are not subject to the audit requirements of OMB Circular A-133, pass-through entities are responsible for establishing requirements, as needed, to ensure for-profit subrecipient accountability for the use of funds.
- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.
- *Central Contractor Registration* – Identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintain the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)).

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During-the-Award Monitoring

Following are examples of factors that may affect the nature, timing, and extent of during-the-award monitoring:

- *Program complexity* – Programs with complex compliance requirements have a higher risk of noncompliance.
- *Percentage passed through* – The larger the percentage of program awards passed through the greater the need for subrecipient monitoring.
- *Amount of awards* – Larger dollar awards are of greater risk.
- *Subrecipient risk* – Subrecipients may be evaluated as higher risk or lower risk to determine the need for closer monitoring. Generally, new subrecipients would require closer monitoring. For existing subrecipients, based on results of during-the-award monitoring and subrecipient audits, a subrecipient may warrant closer monitoring (e.g., the subrecipient has (1) a history of noncompliance as either a recipient or subrecipient, (2) new personnel, or (3) new or substantially changed systems).

Monitoring activities normally occur throughout the year and may take various forms, such as:

- *Reporting* – Reviewing financial and performance reports submitted by the subrecipient.
- *Site Visits* – Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- *Regular Contact* – Regular contacts with subrecipients and appropriate inquiries concerning program activities.

Condition

The Department of Human Services, Division of Family Development (the Division) conducts site visits over the various subrecipients that it provides funding under the Child Care Cluster (CCC). A supervisor reviews the results of the monitoring review before any conclusion is made about a subrecipient's compliance with program requirements and issues a letter documenting whether or not a subrecipient was in compliance. If there are issues that require a corrective action plan, the supervisor's letter documents the requirements and deadlines.

The following were noted during our testwork:

- For three of forty subrecipient monitoring files selected for testwork, the subrecipient did not submit a corrective action by the deadline, and the Division did not follow up until over 90 days later.
- For two of forty subrecipient monitoring files selected for testwork, the Division did not properly communicate findings noted in the subrecipient's monitoring report to the subrecipient, which would require the subrecipient to submit an appropriate corrective action plan to the Division relating to the findings noted.
- For two of forty subrecipient monitoring files selected for testwork, the Division did not perform any monitoring reviews during State fiscal year 2010 due to a specialist not being available to perform the

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reviews. The contract amounts provided to the two subrecipients totaled \$136,343 for the State fiscal year 2010.

- For five of forty subrecipient monitoring files selected for testwork, the Division did not perform a monitoring review until after the contract period ended. The contract amounts provided to the five subrecipients totaled \$1,968,523 for the State fiscal year 2010.

Total payments to subgrantees included in our sample was \$95,422,875. Total payments to subgrantees during State fiscal year 2010 were \$212,501,518.

A similar finding was included in the 2009, 2008 and 2007 prior year single audit reports as items 09-8, 08-4, and 07-7, respectively.

Cause

There were inconsistencies in practice and missing documentation throughout the subrecipient monitoring files maintained by the Division.

Effect

The State of New Jersey may be awarding funding to agencies that are not fulfilling their obligations as subrecipients. Further, the State is not properly monitoring its subrecipients.

Recommendation

We recommend that the Department strengthen its procedures over the monitoring reviews of subrecipients, including document retention and follow-up of corrective action plans submitted by the subrecipients.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

Cannot be determined

View of Responsible Official

See management's corrective action plan.

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Block Grants for the Prevention and Treatment of Substance Abuse (93.959)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 10-8 Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Availability, and Subrecipient Monitoring

Criteria

Activities Allowed or Unallowed

1. The State shall not use grant funds to provide inpatient hospital services except when it is determined by a physician that: (a) the primary diagnosis of the individual is SA and the physician certifies this fact; (b) the individual cannot be safely treated in a community based nonhospital, residential treatment program; (c) the service can reasonably be expected to improve an individual's condition or level of functioning; and (d) the hospital based SA program follows national standards of SA professional practice. Additionally, the daily rate of payment provided to the hospital for providing the services to the individual cannot exceed the comparable daily rate provided for community based nonhospital residential programs of treatment for SA and the grant may be expended for such services only to the extent that it is medically necessary (i.e., only for those days that the patient cannot be safely treated in a residential community based program) (42 USC 300x-31(a) and (b); 45 CFR sections 96.135(a)(1) and (c)).
2. Grant funds may be used for loans from a revolving loan fund for provision of housing in which individuals recovering from alcohol and drug abuse may reside in groups. Individual loans may not exceed \$4000 (45 CFR section 96.129).
3. Grant funds shall not be used to make cash payments to intended recipients of health services (42 USC 300x-31(a); 45 CFR section 96.135(a)(2)).
4. Grant funds shall not be used to purchase or improve land, purchase, construct, or permanently improve (other than minor remodeling) any building or any other facility, or purchase major medical equipment. The Secretary may provide a waiver of the restriction for the construction of a new facility or rehabilitation of an existing facility, but not for land acquisition (42 USC 300x-31(a); 45 CFR sections 96.135(a)(3) and (d)).
5. The State shall not use grant funds to satisfy any requirement for the expenditure of non-Federal funds as a condition for the receipt of Federal funding (42 USC 300x-31(a); 45 CFR section 96.135(a)(4)). June 2010 SAPT HHS A-133 Compliance Supplement 4-93.959-4
6. Grant funds may not be used to provide financial assistance (i.e., a subgrant) to any entity other than a public or non-profit entity. A State is not precluded from entering into a procurement contract for services, since payments under such a contract are not financial assistance to the contractor (42 USC 300x-31(a); 45 CFR section 96.135 (a)(5)).

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7. The State shall not expend grant funds to provide individuals with hypodermic needles or syringes so that such individuals may use illegal drugs (42 USC 300ee-5; 45 CFR section 96.135 (a)(6) and Pub. L. 106-113, section 505).
8. Grant funds may not be used to enforce State laws regarding sale of tobacco products to individuals under age of 18, except that grant funds may be expended from the primary prevention set-aside of SAPT under 45 CFR section 96.124(b)(1) for carrying out the administrative aspects of the requirements such as the development of the sample design and the conducting of the inspections (45 CFR section 96.130 (j)).
9. No funds provided directly from SAMHSA or the relevant State or local government to organizations participating in applicable programs may be expended for inherently religious activities, such as worship, religious instruction, or proselytization (42 USC 300x-65 and 42 USC 290kk; 42 CFR section 54.4).

Allowable Costs/Cost Principles

As discussed in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, SAPT is exempt from the provisions of OMB cost principles circulars. State cost principles requirements apply to SAPT.

Period of Availability of Federal Funds

Any amounts awarded to the State for a fiscal year shall be available for obligation and expenditure until the end of the fiscal year following the fiscal year for which the amounts were awarded (42 USC 300x-62).

Subrecipient Monitoring

A pass-through entity is responsible for:

- *Award Identification* – At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 (or \$300,000 prior to that date) as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

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- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

During-the-Award Monitoring

Following are examples of factors that may affect the nature, timing, and extent of during-the-award monitoring:

- *Program Complexity* – Programs with complex compliance requirements have a higher risk of noncompliance.
- *Percentage Passed Through* – The larger the percentage of program awards passed through the greater the need for subrecipient monitoring.
- *Amount of Awards* – Larger dollar awards are of greater risk.
- *Subrecipient Risk* – Subrecipients may be evaluated as higher risk or lower risk to determine the need for closer monitoring. Generally, new subrecipients would require closer monitoring. For existing subrecipients, based on results of during-the-award monitoring and subrecipient audits, a subrecipient may warrant closer monitoring (e.g., the subrecipient has (1) a history of noncompliance as either a recipient or subrecipient, (2) new personnel, or (3) new or substantially changed systems).

Monitoring activities normally occur throughout the year and may take various forms, such as:

- *Reporting* – Reviewing financial and performance reports submitted by the subrecipient.
- *Site Visits* – Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- *Regular Contact* – Regular contacts with subrecipients and appropriate inquiries concerning program activities.

Condition

For one of forty pass through grant payments selected for testwork, the contract file for the subrecipient did not include support for the expenditure amount and did not include the ledger sheet that allows the Division of Addiction Services to monitor allowable expenditures for subrecipients and ensure the expenditures are within the period of availability.

The amount of the unsupported pass through grant expenditure was \$43,905 and the total amount included in the sample was \$28,772,358. The total amount passed through to subrecipients for State fiscal year 2010 was \$36,303,287.

Cause

The Division did not ensure that all pass through grant expenditures were properly supported and monitored to ensure compliance with program requirements.

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Effect

Subrecipients may have unallowable expenditures that are not properly monitored or within the period of availability.

Recommendation

We recommend that the Division strengthen its procedures to ensure that all expenditures are properly supported and monitored throughout the terms of the contract.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirements.

Questioned Costs

\$43,905

View of Responsible Official

See management's corrective action plan.

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Block Grants for the Prevention and Treatment of Substance Abuse (93.959)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 10-9 Subrecipient Monitoring

Criteria

A pass-through entity is responsible for:

- *Award Identification* – At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 (or \$300,000 prior to that date) as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

During-the-Award Monitoring

Following are examples of factors that may affect the nature, timing, and extent of during-the-award monitoring:

- *Program Complexity* – Programs with complex compliance requirements have a higher risk of noncompliance.
- *Percentage Passed Through* – The larger the percentage of program awards passed through the greater the need for subrecipient monitoring.
- *Amount of Awards* – Larger dollar awards are of greater risk.
- *Subrecipient Risk* – Subrecipients may be evaluated as higher risk or lower risk to determine the need for closer monitoring. Generally, new subrecipients would require closer monitoring. For existing subrecipients, based on results of during-the-award monitoring and subrecipient audits, a subrecipient

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may warrant closer monitoring (e.g., the subrecipient has (1) a history of noncompliance as either a recipient or subrecipient, (2) new personnel, or (3) new or substantially changed systems).

Monitoring activities normally occur throughout the year and may take various forms, such as:

- *Reporting* – Reviewing financial and performance reports submitted by the subrecipient.
- *Site Visits* – Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- *Regular Contact* – Regular contacts with subrecipients and appropriate inquiries concerning program activities.

Condition

Reporting

The oversight of Treatment and Prevention Contracts and Letter of Agreement Monitoring is performed by the Department of Human Services, Division of Addiction Services (the Division). Quarterly expenditure reports are required to be reviewed and approved, as evidenced by a signature of the respective reviewer. These reports are due from the subrecipient within 10 working days of the end of the period to the Division, or 60 days if the subrecipient is reporting their final report, and are required to be reviewed by the Division within 30 days of receipt. If there are adjustments required on the expenditure report, the reviewer contacts the subrecipient to discuss the issue, requests a new version and reviews and approves the final expenditure report.

The following was noted during our testwork:

- For nine of forty subrecipients selected for testwork, we noted the expenditure reports were received beyond the 10 working days of the end of the respective period without any evidence of follow-up by the Division.

Site Visits

In order to complete the compliance monitoring of its various subrecipients, the Division is divided into two units: Prevention Agency and Treatment Agency. Each unit has different monitoring processes. The Treatment Agency does their site visits at least once a calendar year, while, the Prevention Agency conducts about two site visits a year – one informal and one formal. At the conclusion of all site visits, the monitor may have findings that require corrective action, or the monitor may provide best practice suggestions to the subrecipient. These conclusions are communicated to the subrecipient in a report, which is signed and submitted by members of the respective agency and is reviewed and approved by the respective supervisor.

The following was noted during our testwork:

- For one of sixteen Prevention Agency subrecipients selected for testwork, we noted that the site visit was not performed for the contract period during State fiscal year 2010.

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The amount expended for the subrecipients noted in the above conditions was \$11,327,732 and the total amount included in the sample was \$23,887,386. The total amount passed through to subrecipients for State fiscal year 2010 was \$36,303,287.

A similar finding was included in the 2009, 2008, and 2007 prior year single audit reports as items 09-4, 08-3, and 07-2, respectively.

Cause

The Division did not ensure that the expenditure and audit reports submitted by subrecipients were completed and reviewed and approved timely by both a reviewer and supervisor, and that site visits over subrecipients were conducted by a monitor, and reviewed and approved timely by a supervisor.

Effect

Subrecipients may not be conforming with performance goals, administrative standards, financial management rules, eligibility and other Federal requirements.

Recommendation

We recommend that the Division strengthen its procedures to ensure that all expenditure and audit reports for subrecipients are completed and reviewed and approved timely by both the reviewer and supervisor and site visits for subrecipients are conducted by a monitor and reviewed and approved by a supervisor.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

Cannot be determined

View of Responsible Official

See management's corrective action plan.

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Vocational Rehabilitation Cluster (84.126, 84.390)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Education

Finding: 10-10 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Criteria

Activities Allowed or Unallowed

1. *Services to Individuals*

Services provided under the VR programs are any services described in an IPE necessary to assist an individual with a disability in preparing for, securing, retaining, or regaining an employment outcome that is consistent with the strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice of the individual. Section 103(a) of the Act (29 USC 723(a)) contains examples of the types of services that can be provided.

2. *Services to Groups*

The State VR Agency may provide other services to groups of individuals with disabilities (Section 103(b) of the Act (29 USC 723 (b))):

- a. In the case of any type of small business operated by individuals with significant disabilities the operation of which can be improved by management services and supervision provided by the designated State agency, the provision of such services and supervision, along or together with the acquisition by the designated State agency of vending facilities or other equipment and initial stock and supplies.
- b. *Community Rehabilitation Programs* – The establishment, development, or improvement of a public or other nonprofit community rehabilitation program including, under special circumstances, the construction of a facility for a public or nonprofit community rehabilitation program.
- c. The provision of other services, that promise to contribute substantially to the rehabilitation of a group of individuals but that are not related directly to the individualized plan for employment of any one individual with a disability.
- d. Telecommunications systems that have the potential for substantially improving vocational rehabilitation service delivery methods and developing appropriate programming to meet the particular needs of individuals with disabilities.
- e. Special services to provide non-visual access to information for individuals who are blind, including telecommunications, Braille, sound recordings or other appropriate media; captioned television, films, or video cassettes for individuals who are deaf or hard of hearing; tactile materials for individuals who are deaf-blind; and other special services that provide information through tactile, vibratory, auditory, and visual media.

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- f. Technical assistance and support services to businesses that are not subject to Title I of the Americans with Disabilities Act of 1990, and that are seeking to employ individuals with disabilities.
- g. Consultative and technical assistance services to assist educational agencies in planning for the transition of students with disabilities from school to post-school activities, including employment.

3. *Participation in a One-Stop Service Delivery System*

Any service or administrative cost charged to the VR programs through participation in the one-stop service delivery system must be: (a) allowable under the program's authorizing statute and regulations; (b) allocable to the program under the State VR agency's cost allocation plan; and (c) consistent with the MOU between the State VR agency and the Local Workforce Investment Board. The MOU is the primary vehicle by which the State VR agency sets forth how it will participate in the one-stop service delivery system and how it will share in the cost of operating the system (29 USC 2841(b)(1)(B)(iv); 34 CFR section 361.4; 20 CFR part 662; Notice: *Resource Sharing for Workforce Investment Act One-Stop Centers: Methodologies for Paying or Funding Each Partner Program's Fair Share of Allocable One-Stop Costs*, issued May 31, 2001 (66 FR 29637)).

The MOU identifies the resources the State VR agency will provide for compliance with 20 CFR section 662.270, which requires the VR programs to support a fair share of the one-stop system's common administrative costs. The amount provided must be proportionate to the use of the system by individuals attributable to this program. The MOU may provide for cash payments of billings from the one-stop operator, or for providing goods and services that benefit the system's operation. Examples of goods and services that the VR agency may provide for this purpose include: (a) making VR staff available to provide training or technical assistance to other partners in such areas as disability, accessibility, adaptive equipment, and rehabilitation engineering; (b) VR staff participation in cooperative efforts with employers to promote job placement (such as job analysis and employer visits); and (c) applying VR staff and other resources to the VR program's participation in information and financial management systems that link all partners to one another.

Allowable Costs/Cost Principles – General Requirements

a. Basic Guidelines

The basic guidelines affecting allowability of costs are identified in OMB Circular A-87 (A-87), Attachment A, section C. Cost must meet the following general criteria to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, paragraph C.2 for additional information on reasonableness of costs.)
- (b) Be allocable to Federal awards under the provisions of A-87. (Refer to A-87, Attachment A, paragraph C.3 for additional information on allocable costs.)
- (c) Be authorized or not prohibited under State or local laws or regulations.

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- (d) Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- (e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- (f) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- (g) Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87.
- (h) Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.
- (i) Be net of all applicable credits. (Refer to A-87, Attachment A, paragraph C.4 for additional information on applicable credits.)
- (j) Be adequately documented.

b. Selected Items of Cost

- (1) Sections 1 through 43 of A-87, Attachment B, provide the principles to be applied in establishing the allowability or unallowability of certain items of cost. (For a listing of costs, refer to Exhibit 1 of this part of the Supplement.) These principles apply whether a cost is treated as direct or indirect. Failure to mention a particular item of cost in this section of A-87 is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment or standards provided for similar or related items of cost.
- (2) A cost is allowable for Federal reimbursement only to the extent of benefits received by Federal awards and its conformance with the general policies and principles stated in A-87, Attachment A.

c. Submission Requirements

- (1) Submission requirements are identified in A-87, Attachment C, paragraph D.
- (2) A State is required to submit a State-wide central service CAP to HHS for each year in which it claims central service costs under Federal awards.
- (3) A local government that has been designated as a "major local government" by OMB is required to submit a central service CAP to its cognizant agency annually. All other local governments claiming central service costs must develop a CAP in accordance with the requirements described in A-87 and maintain the plan and related supporting documentation for audit. Local governments are not required to submit the plan for Federal approval unless they are specifically requested to do so by the cognizant agency. If a local government receives funds as a subrecipient only, the primary recipient will be responsible for negotiating and/or monitoring the local government's plan.

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- (4) All central service CAPs will be prepared and, when required, submitted within the 6 months prior to the beginning of the governmental unit's fiscal years in which it proposes to claim central service costs. Extensions may be granted by the cognizant agency.

d. Documentation Requirements

- (1) The central service CAP must include all central service costs that will be claimed (either as an allocated or a billed cost) under Federal awards. Costs of central services omitted from the CAP will not be reimbursed.
- (2) The documentation requirements for all central service CAPs are contained in A-87, Attachment C, paragraph E. All plans and related documentation used as a basis for claiming costs under Federal awards must be retained for audit in accordance with the record retention requirements contained in the A-102 Common Rule.

e. Required Certification – No proposal to establish a central service CAP, whether submitted to a Federal cognizant agency or maintained on file by the governmental unit, shall be accepted and approved unless such costs have been certified by the governmental unit using the Certificate of Cost Allocation Plan as set forth in A-87, Attachment C.

f. Allocated Central Service Costs (Section I Costs) – A carry-forward adjustment is not permitted for a central service activity that was not included in the previously approved plan or for unallowable costs that must be reimbursed immediately (A-87, Attachment C, paragraph G.3).

g. Billed Central Service Costs (Section II Costs)

- (1) Internal service funds for central service activities are allowed a working capital reserve of up to 60 days cash expenses for normal operating purposes (A-87, Attachment C, paragraph G.2). A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases.
- (2) Adjustments of billed central services are required when there is a difference between the revenue generated by each billed service and the actual allowable costs (A-87, Attachment C, paragraph G.4). The adjustments will be made through one of the following methods:
 - (a) A cash refund to the Federal Government for the Federal share of the adjustment, if revenue exceeds costs,
 - (b) Credits to the amounts charged to the individual programs,
 - (c) Adjustments to future billing rates, or
 - (d) Adjustments to allocated central service costs (Section I) if the total amount of the adjustment for a particular service does not exceed \$500,000.
- (3) Whenever funds are transferred from a self-insurance reserve to other accounts (e.g., general fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer (A-87, Attachment B, paragraph 22).

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Condition

Cost allocation plans (CAPs) represent the cost finding and reporting methodology employed to determine the reasonable, allowable, and allocable, administrative costs incurred by the Department and its Divisions during the administration of its various program activities. Administrative costs include all expenditures for salaries, wages, fringe benefits, rent, equipment and supplies. Quarterly, a cost report is prepared based on the approved Cost Allocation Plan. The cost report reflects the administrative chargeable to the different Divisions and Programs of the Department and the Divisions for use in preparing claims for Federal reimbursement.

The Department of Human Services (the Department), Commission for the Blind and Visually Impaired (CBVI) is one of two state agencies responsible for the administration of the Vocational Rehabilitation Cluster. During our testwork over the CAPs, CBVI did not prepare or submit to the Department the quarterly CAPs for the quarters ending December 31, 2009, March 31, 2010 and June 30, 2010.

Total program expenditures related to the Department were \$12,286,198.

A similar finding was included in the 2009 and 2008 prior year single audit reports as items 09-6 and 08-7, respectively.

Cause

Cost allocation plans are not prepared.

Effect

Cost allocation plans are not prepared and submitted in a timely manner.

Recommendation

We recommend that the Department prepare the CAPs in a timely manner to timely submit expenditures incurred by the program.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirements.

Questioned Costs

Cannot be determined

View of Responsible Official

See management's corrective action plan.

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Vocational Rehabilitation Cluster (84.126, 84.390)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Education

Finding: 10-11 Reporting

Criteria

Financial Reporting

1. *Financial Status Report (FSR) (SF-269 (OMB No. 0348-0039) or SF-269A (OMB No. 0348-0038))*. In general, these forms, which have been used by recipients of (1) nonconstruction awards to report expenditures, unobligated balances, and other information on the status of funds and (2) construction awards when the FSR was required in lieu of the SF-271, have been replaced by the SF-425, *Federal Financial Report* (OMB No. 0348-0061). The FSR still is being shown as a standard report and, as appropriate, Applicable, given that (1) some entities may have submitted reports during this audit period using this form or (2) some agencies or programs may be converting to use of the new form later than October 1, 2009. See below for information concerning the transition to the Federal Financial Report (SF-425/42A).
2. *Federal Financial Report (FFR) (SF-425/SF-425A (OMB No. 0348-0061))*. Recipients use the FFR as a standardized format to report the financial status of their Federal awards, as well as, when applicable, cash status (Lines 10.a, 10.b, and 10.c). See below for information concerning the transition to the FFR. References to this report include its applicability as both a financial status and a cash report, unless indicated otherwise.

For financial reports due to the Federal awarding agencies and, when different, the servicing payment office during the audit period covered by the 2010 Supplement, recipients may be submitting the *Financial Status Report* and/or *Federal Cash Transactions Report* (SF-269 or 269A) and/or SF-272) and/or the *Federal Financial Report* (SF-425/SF-425A), depending on the report due date and Federal awarding agency/program requirements. The SF-425 (which includes the SF-425A) has been added as a new “e.” under L.1, “Reporting – Financial Reporting” in Parts 4 and 5 of the Supplement. As indicated above, the Supplement will continue to show the SF 269 and SF-272 in the list of standard financial reports until the transition is complete.

The award terms and conditions will specify the initial reporting period for which use of the SF-425 will be required. In addition, where a transition date other than October 1, 2009 was adopted for a program included in the Supplement, it may be shown in Part 4 or 5. Electronic versions of the existing and new standard forms are located on OMB’s Internet home page (http://www.whitehouse.gov/omb/grants_forms).

3. *RSA-2, Program Cost Report (OMB No. 1820-0017)*. State VR agencies submit the RSA-2 annually.

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Condition

The Department of Human Services (the Department), Commission for the Blind and Visually Impaired (CBVI), is one of two State agencies responsible for the administration of the Vocational Rehabilitation Cluster.

During our testwork over reporting, CBVI did not submit the SF-425 financial report for the quarter ending December 31, 2009 and the RSA-2 financial report for Federal fiscal year ending September 30, 2009 within the required timeframes. The SF-425 and RSA-2 financial reports were submitted 4 and 93 days past the required deadlines, respectively.

Cause

The reports were not submitted within the required timeframe.

Effect

Federal financial reports are not submitted by required due dates.

Recommendation

We recommend that the Department prepare the financial reports in a timely manner to submit them within the required timeframe.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

See management's corrective action plan.

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SNAP Cluster (10.551, 10.561)

TANF Cluster (93.558, 93.714)

State Agency: Office of Information Technology

Federal Agency: U.S. Department of Agriculture
U.S. Department of Health and Human Services

Finding: 10-12 Other Requirement – Information Technology General Controls

Criteria

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. OMB Circular A-133 requires auditors to obtain an understanding of the non-Federal entity's internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program, and, unless internal control is likely to be ineffective, perform testing of internal control as planned.

As part of an entity's internal controls to reasonably ensure compliance over Federal laws and regulations, an entity must maintain an effective control environment over their information technology systems used to generate and process information to administer Federal programs in accordance with the respective rules and regulations that govern the program.

Condition

The State of New Jersey, Office of Information Technology (OIT) oversees the mainframes, servers, networks, and databases that make up the state's technical infrastructure, which includes the Family Assistance Management Information System (FAMIS). As part of OIT's oversight for FAMIS, OIT develops and maintains a general information technology (IT) control environment to ensure the overall effectiveness of the application controls directly associated with FAMIS.

We noted the following deficiencies in the design of IT general controls over FAMIS:

1. Access at the Data Center

- During State fiscal year 2010, there were 544 individuals that have access cards to the Data Center, which is the central location that hosts critical information technology systems utilized by the State of New Jersey to administer certain Federal programs. We noted that not all of these individuals require access to the Data Center.
- Access to the Data Center Server Room is not limited only to individuals that require such access based on their job function or assigned responsibilities.
- During State fiscal year 2010, there were no formal review procedures performed by OIT to determine which individuals should have access to the Data Center Server Room based their job function or assigned responsibilities.

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2. *Database Access/Monitoring of Database Access*

- Two general database accounts are shared by system administrators and administrative access to the database and network is not logged or monitored.
- Due to BULL mainframe system limitation, root user account is shared by system administrators.
- Due to HAPS scheduler limitations, a generic user account is shared by job schedule administrators to schedule batch jobs.

3. *Formal Testing and Sign-Off Process for Operation System Changes*

- Formal documentation is not maintained for the approval and testing of patches applied to the Bull operating system.

A similar finding was included in the 2009, 2008 and 2007 prior year single audit reports as items 09-10, 08-44, and 07-8, respectively.

Cause

1. *Access at the Data Center*

- Formalized procedures for review of individuals that have access to the Data Center to validate that they require access to the Server Room is not conducted.

2. *Database Access/Monitoring of Database Access*

- A review of accounts for system administrators and access to the database and network is not properly documented. Also, system limitation restricts management from creating individual accounts for those sharing access.

3. *Formal Testing and Sign-Off Process for Operation System Changes*

- OIT does not have a formalized implemented policy for documenting the operating system changes. Currently the operating system changes and the pertinent approval and testing of these changes is not documented.

Effect

1. *Access at the Data Center*

- There is a risk of inappropriate access to the servers that house critical data for the State to administer its Federal programs.

2. *Database Access/Monitoring of Database Access*

- A lack of system controls and configuration, as well as inappropriate monitoring of access to data, could result in inaccurate data being stored and inappropriate use of information.

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3. *Formal Testing and Sign-Off Process for Operation System Changes*

- Without a formal testing and approval documentation in place to validate that only the approved operating system and database patches are implemented, there is a risk that unauthorized patches or upgrades are applied to the FAMIS infrastructure which can adversely impact functioning and integrity of FAMIS data.

Recommendation

1. *Access at the Data Center*

- We recommend that OIT perform the following with regard to access to the Data Center:
 - Provide access to only those individuals that are required and approved to enter the Data Center and Server Room;
 - Perform reviews of users that can access the Data Center and Server Room and identify individuals that should be removed; and
 - Perform reviews of those individuals who have accessed the Data Center and Server Room on a continuous basis to determine that only appropriate individuals were allowed access to the Data Center and Server Room.

2. *Database Access/Monitoring of Database Access*

- We recommend that OIT establish procedures to review and monitor system access rights for shared accounts.

3. *Formal Testing and Sign-Off Process for Operation System Changes*

- We recommend that OIT implement a formalized policy for documenting the operating system and database changes. The operating system and database patches should be formally documented and testing evidence and approvals retained as part of this process.

Related Noncompliance

Not applicable as this is an internal control finding.

Questioned Cost

None

View of Responsible Official

See management's corrective action plan.

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Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)

State Agency: Department of Agriculture

Federal Agency: U.S. Department of Agriculture

Finding: 10-13 Reporting

Criteria

Financial Reporting

FNS-13, *Annual Report of State Revenue Matching* (OMB No. 0584 – 0075) – This report is due 120 days after the end of each school year and identifies the State revenues to be counted toward meeting the State revenue matching requirement (7 CFR section 210.17(g)).

Special Reporting

State Agency Special Reporting

To receive funds for the Child Nutrition Cluster programs, a State agency administering one or more of these programs compiles the data gathered on its subrecipients' claims for reimbursement into monthly reports to its FNS regional office. Such reports present the number of meals, by category and type, served by SFAs or sponsors under the State agency's oversight during the report period.

An initial monthly report, which may contain estimated participation figures, is due 30 days after the close of the report month. A final report containing only actual participation data is due 90 days after the close of the report month. A final closeout report is also required in accordance with the FNS closeout-schedule. Revisions to the data presented in a 90-day report must be submitted by the last day of the quarter in which they are identified. However, the State agency must immediately submit an amended report if, at any time following the submission of the 90-day report, identified changes to the data cause the State agency's level of funding to change by more than (plus or minus) 0.5%. The specific reports for each program are described below.

- (1) FNS-10, *Report of School Program Operations* (OMB No. 0584-0002) – This report captures meals served under the NSLP and SBP, and half-pints of milk served under the SMP (7 CFR sections 210.5(d), 210.8, 215.10, 215.11, 220.11, and 220.13).
- (2) FNS-418, *Report of the Summer Food Service Program for Children* (OMB No. 0584-0280) – This report documents the number of meals served under the SFSPC by sponsors under the State agency's oversight. Unlike the FNS-10, which is submitted year round, the FNS-418 is filed only for the months when the program is in operation (7 CFR sections 225.8(b) and 225.9(d)(5)).

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Condition

Five out of nine reports selected for testwork were not submitted within the timeframe as required by the compliance requirements above. The Department did not file the following reports by their respective due date:

- FNS-13 report for the period end June 30, 2010; report was due on October 28, 2010 and was submitted on October 29, 2010.
- FNS-10 (90 day) report for the period end June 30, 2010; report was due on September 28, 2010 and was submitted on October 1, 2010.
- FNS-44 (30 day) report for the period end June 30, 2010; report was due on July 30, 2010 and was submitted on August 2, 2010.
- FNS-418 (90 day) report for the period end June 30, 2010; report was due on September 28, 2010 and was submitted on October 1, 2010.
- FNS-418 (30 day) report for the period end June 30, 2010; report was due on July 30, 2010 and was submitted on August 2, 2010.

Cause

The Department does not closely monitor the reporting due dates to ensure that all reports are submitted in a timely manner.

Effect

The reports were not submitted in a timely manner.

Recommendation

We recommend that the Department implement procedures to ensure the reports are submitted before the deadline required by the Federal Government.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

See management's corrective action plan.

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Child and Adult Care Food Program (10.558)

State Agency: Department of Agriculture

Federal Agency: U.S. Department of Agriculture

Finding: 10-14 Reporting

Criteria

Special Reporting

State Agency Special Reporting

FNS-44, *Report of the Child and Adult Care Food Program (OMB No. 0584-0078)* – To receive CACFP funds, a State agency administering the program compiles the data gathered on its subrecipients' claims for reimbursement into monthly reports to its FNS regional office. Such reports present the number of meals served, by category and type, in institutions under the State agency's oversight during the report month.

An initial monthly report, which may contain estimated participation figures, is due 30 days after the close of the report month. A final report containing only actual participation data is due 90 days after the close of the report month. A final closeout report is also required, in accordance with the FNS closeout schedule. Revisions to the data presented in a 90-day report must be submitted by the last day of the quarter in which they are identified. However, the State agency must immediately submit an amended report if, at any time following the submission of the 90 day report, identified changes to the data cause the State agency's level of funding to change by more than (plus or minus) 0.5%.

Condition

Four out of six reports selected for testwork were not submitted within the timeframe as required by the compliance requirement above. The Department did not file the following reports by their respective due date:

- FNS-44 (90 day) report for the period end June 30, 2010; report was due on September 28, 2010 and was submitted on October 1, 2010.
- FNS-44 (30 day) report for the period end June 30, 2010; report was due on July 30, 2010 and was submitted on August 2, 2010.
- FNS-44 (90 day) report for the period end December 31, 2009; report was due on March 31, 2010 and was submitted on April 1, 2010.
- FNS-44 (30 day) report for the period end December 31, 2009; report was due on January 30, 2010 and was submitted on February 1, 2010.

Cause

The Department does not closely monitor the reporting due dates to ensure that all reports are submitted in a timely manner.

Effect

The reports were not submitted in a timely manner.

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Recommendation

We recommend that the Department implement procedures to ensure the reports are submitted before the deadline required by the Federal Government.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

See management's corrective action plan.

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Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)

State Agency: Department of Agriculture

Federal Agency: U.S. Department of Agriculture

Finding: 10-15 Special Tests and Provisions

Criteria

A School Food Authority (SFA) is required to account for all revenues and expenditures of its non-profit school food service in accordance with State requirements. A SFA must operate its food services on a non-profit basis; all revenue generated by the school food service must be used to operate and improve its food services.

Condition

The Department did not perform a complete review of school food service accounting records for all of the SFAs receiving funding through this cluster to ensure the SFA is accounting for all revenues and expenditures of its non-profit school food services in accordance with State requirements.

Out of a sample of 40 selections, for 15 SFAs, the reviewer did not properly sign off on the Audit Checklist; for 4 SFAs, an audit was not performed even though required under State requirements and for 1 SFA, the Department could not produce the audit checklist.

The amount of funds passed through to SFAs for the State fiscal year was \$242,778,000.

A similar finding was included in the 2009 and 2008 prior year single audit reports as items 09-17 and 08-24, respectively.

Cause

The Department does not have a qualified permanent individual identified to perform the necessary reviews of the SFAs to ensure that the SFAs are in compliance with the school food accounting requirements. Through state fiscal year 2010, the Department utilized numerous temporary employees and had difficulty maintaining accurate records of which audits were already reviewed and which were not.

Effect

The SFAs may not be properly segregating their school food services accounting from other accounts.

Recommendation

We recommend that the Department identify a qualified permanent individual to review and perform the follow up procedures, as applicable, on audit reports obtained from SFAs. Furthermore, we recommend the Department ensure individuals who are reviewing the audit reports, sign off on the respective checklists and maintain an accurate record of all audit reports reviewed.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

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Questioned Costs

Cannot be determined

View of Responsible Official

See management's corrective action plan.

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Adoption Assistance (93.659)

ARRA – Adoption Assistance (93.659)

State Agency: Department of Children and Families

Federal Agency: U.S. Department of Health and Human Services

Finding: 10-16 Eligibility

Criteria

- a. Adoption assistance subsidy payments may be paid on behalf of a child only if all of the following requirements are met:
 - (1) The child is eligible, or would have been eligible, for the former Aid to Families with Dependent Children (AFDC) program (i.e., met the State-established standard of need as of July 16, 1996, prior to enactment of the Personal Responsibility and Work Opportunity Reconciliation Act) except for his/her removal from the home of a relative pursuant to either a voluntary placement agreement or as a result of a judicial determination to the effect that continuation in the home of removal would have been contrary to the welfare of the child; the child is eligible for Supplemental Security Income; or is a child whose costs in a foster family home or child care institution are covered by the foster care maintenance payments being made with respect to his/her minor parent (42 USC 673(a)(2)(A)).
 - (2) The child was determined by the State to be a child with special needs (42 USC 673(c)).
 - (3) The State has made reasonable efforts to place the child for adoption without a subsidy (42 USC 673(c)).
 - (4) The agreement for the subsidy was signed and was in effect before the final decree of adoption and contains information concerning the nature of services; the amount and duration of the subsidy; the child's eligibility for Title XX services and Title XIX Medicaid; and covers the child should he/she move out of State with the adoptive family (42 USC 675(3)).
- b. Nonrecurring expenses of adoption may be paid on behalf of a child only if all of the following requirements are met:
 - (1) The agreement, as a separate document or part of an agreement for State or Federal Adoption assistance payment or services, was signed prior to the final decree of adoption (45 CFR section 1356.41).
 - (2) The agreement indicates the nature and amount of the nonrecurring expenses to be paid (45 CFR section 1356.41(a)).
 - (3) The State has determined that the child is a child with special needs (45 CFR section 1356.41(d)).
 - (4) The child has been placed for adoption in accordance with applicable State and local laws (45 CFR section 1356.41(d)).

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- c. There may be no income-eligibility requirement (means test) for the prospective adoptive parent(s) in determining eligibility for adoption assistance subsidy payments or nonrecurring expenses of adoption (45 CFR sections 1356.40(c) and 1356.41(c)).

Condition

As part of the Department's policy, adoptive parents are required to sign and return a subsidy agreement renewal form on an annual basis. We noted for eight of sixty five cases selected for testwork the subsidy agreement renewal form was not included in the file. It was noted that seven were not sent to the adoptive parents and one was not returned from the adoptive parents. There are no questioned costs associated with these cases as the renewal form is required to comply with Department policy and is not required on an annual basis according to Federal regulations.

A similar finding was included in the 2009, 2008 and 2007 prior year single audit reports as items 09-26, 08-25 and 07-41, respectively.

Cause

The Department did not ensure that all required forms were included in the files and signed by the appropriate parties in a timely manner.

Effect

Payments could be made on behalf of recipients that no longer have children in their care.

Recommendation

The Department should ensure that the adoption assistance documentation is complete, accurate and timely for proper payment determination.

Related Noncompliance

Not applicable as this is an internal control finding.

Questioned Costs

None

View of Responsible Official

See management's corrective action plan.

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Foster Care – Title IV-E (93.658)

ARRA – Foster Care – Title IV-E (93.658)

Adoption Assistance (93.659)

ARRA – Adoption Assistance (93.659)

State Agency: Office of Information Technology

Department of Children and Families

Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 10-17 Other Requirement – Information Technology General Controls

Criteria

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. OMB Circular A-133 requires auditors to obtain an understanding of the non-Federal entity's internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program, and, unless internal control is likely to be ineffective, perform testing of internal control as planned.

As part of an entity's internal controls to reasonably ensure compliance over Federal laws and regulations, an entity must maintain an effective control environment over their information technology systems used to generate and process information to administer Federal programs in accordance with the respective rules and regulations that govern the program.

Condition

The State of New Jersey, Enterprise Business Services Unit (EBSU) of the Department of Human Services (DHS) oversees the administration of servers, networks, and databases that make up the technical infrastructure for New Jersey Statewide Protective Investigation, Reporting and Information Tool (NJSPIRIT) application. NJSPIRIT application management is provided by Department of Children and Family Services (DCF) staff that includes loaned staff from State of New Jersey's Office of Information Technology (OIT). EBSU and DCF staff develop and maintain a general information technology (IT) control environment to ensure the overall effectiveness of the application controls directly associated with NJSPIRIT.

We noted the following deficiencies in the design of IT general controls over NJSPIRIT.

1. *NJSPIRIT Password Rules*

- Password rules for NJSPIRIT are not strictly enforced.

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2. *Disaster Recovery Test*

- A disaster recovery test was not performed for NJSPIRIT during State fiscal year 2010.

3. *Sensitive Access and Segregation of Duties*

- A segregation of duties conflict exists due to a user having access in the Contract Management System for the creation of vendors, as well as access on the NJSPIRIT application to approve payments.

4. *User Access Provisioning and Monitoring*

- User access modifications to NJSPIRIT and supporting approvals could not be validated as the NJSPIRIT application does not maintain a system log of changes that were made during State fiscal year 2010.

A similar finding was included in the 2009 and 2008 prior year single audit reports as items 09-28 and 08-6, respectively.

Cause

1. *NJSPIRIT Password Rules*

- The NJSPIRIT application relies on the DCF portal for user authentication. Upon successful authentication by the portal, users can log in directly to the NJSPIRIT application if he/she has a valid user ID in NJSPIRIT. During State fiscal year 2010, password rules for the DCF portal were not configured. As the NJSPIRIT application relies on the DCF portal for user authentication and password controls, the password rules for the NJSPIRIT application were not enforced.

2. *Disaster Recovery Test*

- During State fiscal year 2010, disaster recovery tests were not performed for the NJSPIRIT application.

3. *Sensitive Access and Segregation of Duties*

- One user has full access in the Contract Management System and also has supervisory rights in the NJSPIRIT application. This allows the user to create/update vendors in the Contract Management System, and also allows the user to process/approve payments within NJSPIRIT. Access should be restricted where the user cannot perform both these functions.

4. *User Access Provisioning and Monitoring*

- The NJSPIRIT application does not maintain a system log regarding changes that have been made to user account access. As a result, it was not possible to obtain an accurate population of user account access changes during State fiscal year 2010.

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Effect

1. *NJSPIRIT Password Rules*

- There is an increased risk that unauthorized users may obtain access to the NJSPIRIT application without the enforcement of password parameters.

2. *Disaster Recovery Test*

- The absence of periodic recovery tests may prevent recovery of the NJSPIRIT application data in case of a disaster.

3. *Sensitive Access and Segregation of Duties*

- The absence of proper segregation of duties between vendor management and payment functions may result in unauthorized or improper payments to vendors.

4. *User Access Provisioning and Monitoring*

- The absence of a system log of changes made to user accounts in the NJSPIRIT application does not provide management a clear understanding of the total population of changes made to user accounts in the NJSPIRIT application during a fiscal year. Therefore, management is not being able to validate that the total population of user access changes have followed the appropriate change process and approval policies, and that all users are granted appropriate levels of access.

Recommendation

1. *NJSPIRIT Password Rules*

- We recommend that a formal set of password rules be established for the NJSPIRIT application.

2. *Disaster Recovery Test*

- We recommend that disaster recovery procedures are planned and periodic disaster recovery tests are performed.

3. *Sensitive Access and Segregation of Duties*

- We recommend that user rights are updated to ensure proper segregation of duties for those users with ability to create vendors in Contract Management System do not have the ability to process/approve payments in the NJSPIRIT application.

4. *User Access Provisioning and Monitoring*

- We recommend that all user access modification requests related to the NJSPIRIT application are properly documented, approved and maintained and a system log of user accounts that have had access modifications, including the details of what was modified and when, are also maintained.

Related Noncompliance

Not applicable as this is an internal control finding.

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Questioned Cost

None

View of Responsible Official

See management's corrective action plan.

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Special Supplemental Nutrition Program for Women, Infants, and Children (10.557)

Public Health Emergency Preparedness (93.069)

Immunization Cluster (93.268, 93.712)

HIV Care Formula Grants (93.917)

State Agency: Department of Health and Senior Services

Federal Agency: U.S. Department of Agriculture

U.S. Department of Health and Human Services

Finding: 10-18 Subrecipient Monitoring

Criteria

A pass-through entity is responsible for:

- *Award Identification* – At the time of the award, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.
- *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Ensuring Accountability of For-Profit Subrecipients – Awards also may be passed through to for-profit entities. For-profit subrecipients are accountable to the pass-through entity for the use of Federal funds provided. Because for-profit subrecipients are not subject to the audit requirements of OMB Circular A-133, pass-through entities are responsible for establishing requirements, as needed, to ensure for-profit subrecipient accountability for the use of funds.

- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.
- *Central Contractor Registration* – Identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintain the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)).

STATE OF NEW JERSEY

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During-the-Award Monitoring

Following are examples of factors that may affect the nature, timing, and extent of during-the-award monitoring:

- *Program complexity* – Programs with complex compliance requirements have a higher risk of noncompliance.
- *Percentage passed through* – The larger the percentage of program awards passed through the greater the need for subrecipient monitoring.
- *Amount of awards* – Larger dollar awards are of greater risk.
- *Subrecipient risk* – Subrecipients may be evaluated as higher risk or lower risk to determine the need for closer monitoring. Generally, new subrecipients would require closer monitoring. For existing subrecipients, based on results of during-the-award monitoring and subrecipient audits, a subrecipient may warrant closer monitoring (e.g., the subrecipient has (1) a history of noncompliance as either a recipient or subrecipient, (2) new personnel, or (3) new or substantially changed systems).

Monitoring activities normally occur throughout the year and may take various forms, such as:

- *Reporting* – Reviewing financial and performance reports submitted by the subrecipient.
- *Site Visits* – Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- *Regular Contact* – Regular contacts with subrecipients and appropriate inquiries concerning program activities.

Condition

The State of New Jersey (the State) utilizes the online Grantee Single Audit (GSA) Monitoring System to track the receipt and desk reviews of subrecipient OMB Circular A-133 audit reports. The State has assigned various State of New Jersey Departments as cognizant agencies. It is each cognizant agency's responsibility to:

- Review online GSA reports;
- Determine if subrecipients assigned to their department are subject to State of New Jersey and/or federal single audits;
- Perform desk reviews of the audit reports, and;
- Update the GSA system online.

The Department of Health and Senior Services (the Department) is a cognizant agency responsible for the performance of the above duties of its subrecipients which includes hospitals, nursing homes, and other healthcare related entities.

For one of the ten desk reviews performed by the Department, the GSA Monitoring System was not updated to reflect findings noted related to the subrecipient's OMB Circular A-133 and financial statement audits.

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The subrecipients receive funding from various Federal programs that amounted to approximately \$1.62 billion for State fiscal year 2010. The four major programs audited at the Department of Health and Senior Services for the State fiscal year 2010 were Special Supplemental Nutrition Program for Women, Infants, and Children, Public Health Emergency Preparedness, Immunization Grants/ARRA-Immunization, and HIV Care Formula Grants. The total payments to subrecipients for these four programs were \$20,935,952, \$18,650,486, \$1,627,357, and \$63,842,793 respectively.

A similar finding was included in the 2009 prior year single audit report as item 09-29.

Cause

The Department did not properly update the GSA Monitoring System to reflect the findings noted in the subrecipients' OMB Circular A-133 audit reports.

Effect

Information regarding monitoring of subrecipients may not be properly updated in the GSA Monitoring System to allow other State departments and agencies to perform any follow-up procedures if they pass funds through to the same subrecipients.

Recommendation

We recommend that the Department ensure that all findings related to subrecipients' audit reports conducted in accordance with OMB Circular A-133 are properly reflected in the GSA Monitoring System.

Related Noncompliance

Not applicable as this is an internal control finding.

Questioned Costs

None

View of Responsible Official

See management's corrective action plan.

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HIV Care Formula Grants (93.917)

State Agency: Department of Health and Senior Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 10-19 Earmarking

Criteria

- a. The State may not use more than 10% of the amounts received under the grant for planning and evaluation activities (42 USC 300ff-28(b)(2)).
- b. The State may not use more than 10% of the funds amounts received under the grant for administration (42 USC 300ff-28(b)(3)).
- c. A State may not use more than a total of 15% of the amounts received for the combined costs for administration, planning, and evaluation. States and territories that receive a minimum allotment (between \$200,000 and \$500,000) may expend up to the amount required to support one full-time equivalent employee for any or all of these purposes (42 USC 300ff-28(b)(5)).
- d. The aggregate of expenditures for administrative expenses by entities and subcontractors (including consortia) funded directly by the State from grant funds (first-line entities) may not exceed 10% of the total allocation of grant funds to the State (without regard to whether particular entities spend more than 10% for such purposes) (42 USC 300ff-28(b)(3)(B)).
- e. For the purpose of providing health and support services to women, youth, infants, and children with HIV disease, including treatment measures to prevent the perinatal transmission of HIV, a State shall use for each of these populations not less than the percentage of Title II or Part B funds in a fiscal year constituted by the ratio of the population involved (women, youth, infants, or children) in the State with AIDS to the general population in the State of individuals with AIDS (42 USC 300ff-21(b)). This information is provided to the State by HRSA in the annual application guidance (Appendix II, Estimated Number/Percent of Women, Infants, and Children Living with AIDS in States and Territories).
- f. A State shall use a portion of the funds awarded to establish a program to provide therapeutics to treat HIV/AIDS or prevent the serious deterioration of health arising from HIV/AIDS in eligible individuals, including measures for the prevention and treatment of opportunistic infections. The amount of this specific earmark for ADAP will be provided in the grant agreement. Of the amount earmarked in the grant agreement for this purpose, the State may use not more than 5% to encourage, support, and enhance adherence to and compliance with treatment regimens (including related medical monitoring) unless the Secretary (or designee) approves a 10% limit (42 USC 300ff-26(c)).
- g. A State shall establish a quality management program to determine whether the services provided under the grant are consistent with the most recent Public Health Service guidelines for the treatment of HIV disease and related opportunistic infection and, as applicable, to develop strategies for bringing these services into conformity with the guidelines. Funds used for this purpose may not exceed the lesser of 5% of the amount received under the grant or \$3,000,000, and are not considered administrative expenses for purposes of the limitation under paragraph 3.b above (42 USC 300ff-28(b)(3)(E)).

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- h. Unless waived by the Secretary, HHS (or designee), not less than 75% of the amount remaining after reserving amounts for State administration and a clinical quality management program shall be used to provide core medical services to eligible individuals with HIV/AIDS (including services regarding the co-occurring conditions of those individuals) (42 USC 300ff-22(b)).

Condition

The Department did not meet the Women, Infants, Children and Youth earmarking requirement. The percentage of expenditures communicated to the Department was 36.00%, while the Department only provided 35.24% of Ryan White Part B funds to Women, Infants, Children and Youth. A waiver must be filed if, and when, a requirement is not being met; however for the current grant period, no waiver was filed.

Cause

The Department did not closely monitor compliance with the earmarking requirement, therefore did not comply with the earmarking requirements, in regards to the Women, Infants, Children and Youth requirement.

Effect

The State did not maintain their expenditures for Women, Infant, Children, and Youth at a percentage of Ryan White Part B funds at, or above, the requirement stipulated in the application.

Recommendation

We recommend that the Department strengthen their monitoring procedures to ensure the State is in compliance with the earmarking requirements. If the Department will not meet the requirement, they should file a waiver to the Federal government in a timely manner.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

\$319,087

View of Responsible Official

See management's corrective action plan.

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Public Health Emergency Preparedness (93.069)

State Agency: Department of Health and Senior Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 10-20 Reporting

Criteria

Financial Reporting

Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form). These other forms may include financial, performance, and special reporting. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. If the Federal awarding agency requires accrual information and the recipient's accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis. The awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of the prescribed formats.

Federal Financial Report (FFR) (SF-425/SF-425A (OMB No. 0348-0061)). Recipients use the FFR as a standardized format to report the financial status of their Federal awards, as well as, when applicable, cash status (Lines 10.a, 10.b, and 10.c). See below for information concerning the transition to the FFR. References to this report include its applicability as both a financial status and a cash report, unless indicated otherwise.

Condition

For one of the two SF-425 reports selected for testwork, the cash disbursements included on the SF-425 for the quarter ended June 30, 2010 did not agree to supporting documentation provided by the Department. The disbursements included on the SF-425 totaled \$6,973,632 and the supporting documentation provided by the Department totaled \$7,409,880. The reported amount of cash disbursements included in the SF-425 was not accurate for the quarter ended June 30, 2010.

Cause

The Department did not properly review the supporting documentation and the SF-425 report to ensure that the cash disbursements agreed between the report and supporting documentation.

Effect

Cash disbursements reported on the SF-425 reports are not accurately stated based on supporting documentation.

Recommendation

We recommend that the Department strengthen review procedures to ensure that all amounts included within the SF-425 reports agree to supporting documentation.

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Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

See management's corrective action plan.

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Disability Insurance/SSI Cluster (96.001)

State Agency: Department of Labor and Workforce Development

Federal Agency: Social Security Administration

Finding: 10-21 Activities Allowed or Unallowed/ Allowable Cost/Cost Principles

Criteria

Activities Allowed or Unallowed

DDSs make disability determinations based on the law and regulations and on written guidelines issued by SSA. Each State making disability determinations is entitled to receive from the Trust funds reimbursement for the cost of making those disability determinations for SSA. Activities shall be in accordance with the budget request approved by SSA. Purchased medical services, such as Medical Evidence of Record (MER) and Consultative Examinations (CE), must be in accordance with the DDS's fee schedule for purchased medical services. Activities allowed under the disability programs include personnel services, purchased medical services, indirect costs and other nonpersonnel costs (42 USC 421 (e) and (f); 20 CFR section 404.1626).

Allowable Costs/Cost Principles

1. *Direct Costs* – The SSA Program Operations Manual System (POMS) contains guidance on direct costs for both the DI and SSI programs. Personnel services (POMS DI 39518) include personnel costs and employee benefits. Purchased medical services (POMS DI 39545) include MER and CE. Other nonpersonnel costs include travel (POMS DI 39524), space (POMS DI 39527), equipment (POMS DI 39530), and contracted services (POMS DI 39542).
2. *Indirect Costs* – Indirect costs which may be charged to the disability program generally arise from three sources: (a) administrative costs of the parent agency related to DDS; (b) business costs associated with the accounting, billing, and procurement services provided by the parent agency for the DDS; and (c) automated services provided to the DDS that are operated by the parent agency. Indirect costs charged to the disability program should be based on the rate approved by the cognizant Federal agency as evidenced by a written agreement.
3. *Non-SSA Work* – Some DDSs make disability determinations for claims not related to SSA benefits. When a DDS performs non-SSA work, a Memorandum of Understanding should exist between the State and the SSA Regional Commissioner that outlines the specifics of the non-SSA work. The SSA should not be charged the costs on the non-SSA program work (POMS DI 39563).

Condition

For one of twenty-five other than personal service (OTPS) expenditures selected for testwork, the Department made a duplicate payment for \$1,470 in error on the same invoice; however, the Department did not request a refund from the vendor for the overpayment.

Total OTPS expenditures included in our sample were \$2,695,429 and total OTPS expenditures included on the schedule of expenditures of federal awards were \$2,727,650.

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Cause

The Department does not have adequate internal controls over processing of payments made during the State fiscal year 2010 to ensure payments are not duplicated related to the same invoice.

Effect

A duplicated payment was made that was not allowable.

Recommendation

We recommend that the Department strengthen monitoring and review procedures over all expenditures to ensure that all amounts are proper.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirements.

Questioned Cost

\$1,470

View of Responsible Official

See management's corrective action plan.

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Unemployment Insurance (17.225)

ARRA – Unemployment Insurance (17.225)

State Agency: Department of Labor and Workforce Development

Federal Agency: U.S. Department of Labor

Finding: 10-22 Cash Management

Criteria

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. When advance payment procedures are used, recipients must establish similar procedures for subrecipients.

Pass-through entities must establish reasonable procedures to ensure receipt of reports on subrecipients' cash balances and cash disbursements in sufficient time to enable the pass-through entities to submit complete and accurate cash transactions reports to the Federal awarding agency or pass-through entity. Pass-through entities must monitor cash drawdowns by their subrecipients to assure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.

Interest earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to \$100 per year may be kept for administrative expenses. Interest earned by non-State non-profit entities on Federal fund balances in excess of \$250 is required to be remitted to Department of Health and Human Services, Payment Management System, P.O. Box 6021, Rockville, MD 20852.

U.S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 et seq.), require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures prescribed by Treasury in Subpart B of 31 CFR part 205 (Subpart B).

The requirements for cash management are contained in the OMB Circular 102 (Paragraph 2.a.), the A-102 Common Rule (§____.21), OMB Circular A-110 (§____.22), Treasury regulations at 31 CFR part 205, Federal awarding agency regulations, and the terms and conditions of the award.

Condition

Unemployment Trust Fund draws from the Federal Government are deposited into the Department of Labor and Workforce Development's Master Account with its financial institution (the Master Account) and allocated to other accounts upon review. We noted for one of thirty-three drawdowns, an incorrect amount was transferred into the Federal Additional Compensation Program (FAC). The incorrect transfer resulted in an overstatement in the FAC dedicated account of \$95,000.

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There are no questioned costs at June 30, 2010 as the drawdown amount was adequately supported by the Department's underlying records and supporting documentation.

Cause

The review of the daily reconciliation between the bank accounts and the amount on the drawdown request form to ensure funds were properly deposited into the respective bank accounts was not performed properly.

Effect

Dedicated bank accounts to account for specific program funding may have insufficient funds to make benefit payments.

Recommendation

We recommend that the Department strengthen their review procedures to ensure each drawdown is deposited into the appropriate bank account.

Related Noncompliance

Not applicable as this is an internal control finding.

Questioned Costs

None

View of Responsible Official

See management's corrective action plan.

STATE OF NEW JERSEY
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Vocational Rehabilitation Cluster (84.126, 84.390)

State Agency: Department of Labor and Workforce Development

Federal Agency: U.S. Department of Education

Finding: 10-23 Cash Management

Criteria

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. When advance payment procedures are used, recipients must establish similar procedures for subrecipients.

Pass-through entities must establish reasonable procedures to ensure receipt of reports on subrecipients' cash balances and cash disbursements in sufficient time to enable the pass-through entities to submit complete and accurate cash transactions reports to the Federal awarding agency or pass-through entity. Pass-through entities must monitor cash drawdowns by their subrecipients to assure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.

Interest earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to \$100 per year may be kept for administrative expenses. Interest earned by non-State non-profit entities on Federal fund balances in excess of \$250 is required to be remitted to Department of Health and Human Services, Payment Management System, P.O. Box 6021, Rockville, MD 20852.

U.S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 et seq.), require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures prescribed by Treasury in Subpart B of 31 CFR part 205 (Subpart B).

The requirements for cash management are contained in the OMB Circular 102 (Paragraph 2.a.), the A-102 Common Rule (§____.21), OMB Circular A-110 (§____.22), Treasury regulations at 31 CFR part 205, Federal awarding agency regulations, and the terms and conditions of the award.

Condition

The Vocational Rehabilitation program funds are drawn down daily by the Department for client service activity on a reimbursement basis. The Department utilizes the ESUM table from NJCFS to calculate the daily draw which represents actual expenditures processed in the NJCFS system the day before. For three of fifty-seven client drawdowns selected for testwork, the Department did not draw down Federal funds based upon supporting documentation, resulting in Federal funds being under drawn by \$101,529.

A similar finding was included in the 2009 and 2008 prior year single audit reports as items 09-30 and 08-40, respectively.

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Cause

The drawdowns did not agree to the underlying NJCFS documentation maintained by the Department due to manual errors in the calculation.

Effect

Cash drawdowns may not be complete and accurate.

Recommendation

We recommend that the Department implement procedures to ensure the amounts drawn from the Federal Government are in accordance with the Department's policy and in accordance with Federal regulations.

Related Noncompliance

Not applicable as this is an internal control finding.

Questioned Costs

None

View of Responsible Official

See management's corrective action plan.

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Highway Planning and Construction Cluster (20.205, 20.219)

State Agency: Department of Transportation

Federal Agency: U.S. Department of Transportation

Finding: 10-24 Davis-Bacon Act

Criteria

When required by the Davis-Bacon Act, the Department of Labor's (DOL) governmentwide implementation of the Davis-Bacon Act, ARRA, or by Federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 3141-3144, 3146, and 3147 (formerly 40 USC 276a to 276a-7)).

Nonfederal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347, which includes the required statement of compliance (*OMB No. 1215-0149*).

The requirements of the Davis-Bacon Act are applicable to construction work on highway projects on Federal-aid highways or with ADHS funds. These requirements are not applicable to Federal-aid construction projects that are not located within the right-of-way of a Federal-aid highway. FHWA has provided guidance on the applicability of Davis-Bacon Act requirements on the Internet at: <http://www.fhwa.dot.gov/construction/contracts/080625.cfm> (23 USC 113 and 40 USC 14701).

Condition

To perform testwork over the above requirement, we selected forty projects and further selected one monthly payroll summary from each project. The total project expenditures included in the sample were \$273,491,150. We noted the following exceptions:

- For thirteen projects (with expenditures totaling \$72,294,312), the payroll summaries were submitted less than monthly.
- For one project (with expenditures totaling \$21,146), the payroll summary selected was not signed by the resident engineer.
- For eighteen projects (with expenditures totaling \$64,796,740), the payroll summaries did not contain evidence of wage rate inspections for the summary selected. Additionally for one of the eighteen, no monthly summaries were provided.

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We further selected one payroll certification from each of the forty monthly payroll summaries and selected one employee from each and noted the following exceptions:

- For one of the forty selected, the required certification was not submitted with the payroll. The total paid to the employee selected from this payroll was \$320.
- For two of the forty selected, the required certifications were not signed by the contractor. The employees selected from these two certifications were paid \$1,003. For one of the two selected, the related payroll did not specify the job classification of the worker, and as such, we could not verify if the appropriate prevailing wage/fringe rate was paid. This employee was paid \$430.
- For one of the forty selected, we were unable to determine the prevailing wage rate as the certification specified that fringe rates were paid in cash except to union employees, but the information in the payroll provided did not provide the detail to verify that the prevailing wage and/or fringe rate was in fact paid. The employee selected from this payroll certification was paid \$2,280.
- For two of the forty selected, the contractor did not specify whether fringe benefits were paid to applicable programs or in cash, and the information in the payroll provided did not provide the detail to verify that the prevailing wage and/or fringe rate was in fact paid. The employees selected from these two certifications were paid a total of \$2,024.
- For one of the forty selected, the payroll support submitted indicated hours worked for the selected employee, but did not list any pay data to allow us to determine if the prevailing wage rate was paid or the actual amount paid to the employee.

A similar finding was included in the 2009 prior year single audit report as item 09-34.

Cause

The Department does not have procedures in place to ensure that all monthly payroll summaries and certifications are being submitted. Furthermore, the procedures in place to ensure accurate reporting are not being followed. This is due in part to the large volume of projects and payroll submissions, and the lack of manpower committed to processing and reviewing the submissions.

Effect

Contractors and sub-contractors may not be paying prevailing wage and benefit rates, resulting in noncompliance with Federal regulations.

Recommendation

We recommend that the Department implement procedures to ensure that all payroll summaries and certifications are submitted and reviewed on a timely basis.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

Cannot be determined

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View of the Responsible Official

See management's corrective action plan.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

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Highway Planning and Construction Cluster (20.205, 20.219)

State Agency: Department of Transportation

Federal Agency: U.S. Department of Transportation

Finding: 10-25 Subrecipient Monitoring

Criteria

A pass-through entity is responsible for:

- *Award Identification* – At the time of the award, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.
- *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A133 have met the audit requirements of OMB Circular A133 (the circular is available on the Internet at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Ensuring Accountability of For Profit Subrecipients* – Awards also may be passed through to for profit entities. For profit subrecipients are accountable to the pass-through entity for the use of Federal funds provided. Because for profit subrecipients are not subject to the audit requirements of OMB Circular A133, pass-through entities are responsible for establishing requirements, as needed, to ensure for profit subrecipient accountability for the use of funds.
- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.
- *Central Contractor Registration* – Identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintain the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)).

Condition

For seven of twenty-five sampled projects, we noted the Department did not identify to the subrecipient at the time of the award the Federal award information (i.e., CFDA title and number; award name and number) as required by the subrecipient monitoring compliance requirement stated above. The expenditures for fiscal

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year ended June 30, 2010 for the seven projects totaled \$9,238,645. The total expenditures tested in our sample was \$24,965,703.

Cause

The Department did not complete the respective fields (identifying the Federal award information) on the Federal Aid Agreements for these subrecipients.

Effect

Failure to identify the Federal award information (CFDA title and number; award name and number) to the subrecipients could lead to noncompliance with the Federal compliance requirements applicable to the program and failure to include the Federal program in the subrecipient's OMB A-133 audit, if required.

Recommendation

We recommend that the Department implement procedures to ensure the Federal award information (e.g., CFDA title and number; award name and number; and name of Federal awarding agency) is identified to subrecipients at the time of the award.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

Cannot be determined

View of Responsible Official

See management's corrective action plan.

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National Guard Military Operations and Maintenance (O&M) Projects (12.401)

ARRA – National Guard Military Operations and Maintenance (O&M) Projects (12.401)

State Agency: Department of Military and Veterans Affairs

Federal Agency: U.S. Department of Defense

Finding: 10-26 Reporting

Criteria

American Recovery and Reinvestment Act Reporting

Section 1512 of ARRA includes reporting requirements applicable to recipients of awards under ARRA Division A. This section (III.L, Reporting) is relevant only for awards received as a prime recipient (as defined below). This section is not applicable to awards received by a 1st tier-subrecipient (as defined in Appendix VII) or by a lower-level subrecipient. An entity could have received awards as both a recipient and a subrecipient within a major program.

Condition

When reconciling the amounts reported on the Section 1512 reports, the following discrepancies were noted:

- Reports submitted for the period July 1, 2009 through June 30, 2010, some of the expenditures were charged in full to the appropriation established to accumulate only the 50% Federal share, which resulted in an overstatement of the project's progress.
- The manner in which the disbursements on the Section 1512 reporting was inconsistent. Some quarters showed cumulative disbursements to vendors, while others showed only the amount for the specific quarter.
- Some of the vendors that were being paid with the ARRA funds were omitted from the Section 1512 reports.

The amount reported on the Schedule of Expenditures of Federal Awards and the SF-270, Request for Advance or Reimbursement Report for the ARRA portion of the program was \$808,610. After our audit inquiry the Department analyzed the ARRA expenditures and determined the actual amount expended was \$838,695.

Cause

The Section 1512 reports were not properly reviewed.

Effect

The amounts reported to the Federal Government by the Department were not complete and accurate.

Recommendation

We recommend that all information on the Section 1512 reports be reviewed prior to submission.

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Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

See management's corrective action plan.

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Title I, Part A Cluster (84.010, 84.389)

Special Education Cluster (IDEA) (84.027, 84.173, 84.391, 84.392)

Improving Teacher Quality State Grants (84.367)

State Fiscal Stabilization Fund Cluster (84.394, 84.397)

State Agency: Department of Education

Federal Agency: U.S. Department of Education

Finding: 10-27 Subrecipient Monitoring

Criteria

A pass-through entity is responsible for:

- *Award Identification* – At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 (or \$300,000 prior to that date) as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Ensuring Accountability of For-Profit Subrecipients* – Awards also may be passed through to for-profit entities. For-profit subrecipients are accountable to the pass-through entity for the use of Federal funds provided. Because for-profit subrecipients are not subject to the audit requirements of OMB Circular A-133, pass-through entities are responsible for establishing requirements, as needed, to ensure for-profit subrecipient accountability for the use of funds.
- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.
- *Central Contractor Registration* – Identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintain the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)).

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During-the-Award Monitoring

Following are examples of factors that may affect the nature, timing, and extent of during-the-award monitoring:

- *Program complexity* – Programs with complex compliance requirements have a higher risk of noncompliance.
- *Percentage passed through* – The larger the percentage of program awards passed through the greater the need for subrecipient monitoring.
- *Amount of awards* – Larger dollar awards are of greater risk.
- *Subrecipient risk* – Subrecipients may be evaluated as higher risk or lower risk to determine the need for closer monitoring. Generally, new subrecipients would require closer monitoring. For existing subrecipients, based on results of during-the-award monitoring and subrecipient audits, a subrecipient may warrant closer monitoring (e.g., the subrecipient has (1) a history of noncompliance as either a recipient or subrecipient, (2) new personnel, or (3) new or substantially changed systems).

Monitoring activities normally occur throughout the year and may take various forms, such as:

- *Reporting* – Reviewing financial and performance reports submitted by the subrecipient.
- *Site Visits* – Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- *Regular Contact* – Regular contacts with subrecipients and appropriate inquiries concerning program activities.

Condition

The State of New Jersey (the State) utilizes the online Grantee Single Audit (GSA) Monitoring System to track the receipt and desk reviews of subrecipient OMB Circular A-133 audit reports. The State has assigned various State of New Jersey Departments as cognizant agencies. It is each cognizant agency's responsibility to:

- Review online GSA reports;
- Determine if subrecipients assigned to their department are subject to State of New Jersey and/or federal single audits;
- Perform desk reviews of the audit reports, and;
- Update the GSA system online.

The Department of Education, Office of Fiscal Accountability and Compliance (the Office), is a cognizant agency responsible for the performance of the above duties of its subrecipients which include school districts, boards of education, various educational related institutions, and charter schools. During the State fiscal year 2010, 250 subrecipients were required to submit OMB Circular A-133 audit reports to the Office. Although the Department performed the desk reviews of the 250 OMB Circular A-133 audit reports, it did not update the GSA online system to reflect such reviews as being completed or the findings noted, as applicable.

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A similar finding was included in the 2009 and 2008 prior year single audit reports as items 09-42, 08-46, respectively.

Cause

The Office did not properly update the GSA Monitoring System after completing desk reviews of subrecipients' OMB Circular A-133 audit reports.

Effect

Information regarding monitoring of subrecipients may not be properly updated in the GSA Monitoring System to allow other State departments and agencies to perform any follow-up procedures if they pass funds through to the same subrecipients.

Recommendation

We recommend that the Department ensure that the GSA Monitoring System is updated in a timely manner to ensure proper reporting of OMB Circular A-133 desk reviews.

Related Noncompliance

Not applicable as this is an internal control finding.

Questioned Costs

None

View of Responsible Official

See management's corrective action plan.

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Capitalization Grants for Clean Water State Revolving Funds (66.458)

ARRA – Capitalization Grants for Clean Water State Revolving Funds (66.458)

State Agency: Department of Environmental Protection

Federal Agency: Environmental Protection Agency

Finding: 10-28 Subrecipient Monitoring and Special Tests and Provisions

Criteria

Subrecipient Monitoring

A pass-through entity is responsible for:

- *Award Identification* – At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending (\$500,000) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 (the revised circular is available on the Internet at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>) and that the required audits are completed within 9 months of the end of the subrecipient's audit period, (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.
- *Central Contractor Registration* – Identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintain the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)).

During-the-Award Monitoring

Following are examples of factors that may affect the nature, timing, and extent of during-the-award monitoring:

Monitoring activities normally occur throughout the year and may take various forms, such as:

- *Reporting* – Reviewing financial and performance reports submitted by the subrecipient.

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- *Site Visits* – Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- *Regular Contact* – Regular contacts with subrecipients and appropriate inquiries concerning program activities.

Special Tests and Provisions

R3 – Subrecipient Monitoring

Federal agencies must require recipients to agree to: (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds; and (2) require their subrecipients to provide similar identification in their SEFA and SF-SAC. Additional information, including presentation requirements for the SEFA and SF-SAC, is provided in Appendix VII (2 CFR section 176.210).

Condition

For 22 of the 25 subrecipients selected for testwork, the Department did not communicate the Federal award information to the subrecipient (e.g. the related CFDA title and number, award name, name of Federal agency). For 11 of 12 subrecipients that received ARRA funds, the Department did not communicate the Federal award information at the time of the disbursement of funds. The 22 subrecipients included in our sample received loan amounts of \$18,879,502 (including \$8,084,408 of ARRA). The total amount sampled was \$27,510,675 (including \$9,570,345 of ARRA) and the total amount loaned to subrecipients for the fiscal year was \$93,288,341 (including \$44,934,061 of ARRA).

Cause

The Department did not establish procedures within their award documentation or disbursement of ARRA funds to subrecipients to properly communicate required Federal award information.

Effect

The subrecipient may not be aware of the related grant that it is working on as well as the proper compliance requirements associated with the grant program and properly include the expenditures of the Federal program on its OMB Circular A-133 audit, if required.

Recommendation

We recommend that the Department establish procedures to properly communicate the required Federal award information to the subrecipient at the time of the award and at the disbursement of ARRA funds.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirements.

Questioned Costs

Cannot be determined

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View of Responsible Official

See management's corrective action plan.

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Capitalization Grants for Drinking Water State Revolving Funds (66.468)

ARRA – Capitalization Grants for Drinking Water State Revolving Funds (66.468)

State Agency: Department of Environmental Protection

Federal Agency: Environmental Protection Agency

Finding: 10-29 Subrecipient Monitoring and Special Tests and Provisions

Criteria

Subrecipient Monitoring

A pass-through entity is responsible for:

- *Award Identification* – At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending (\$500,000) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 (the revised circular is available on the Internet at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>) and that the required audits are completed within 9 months of the end of the subrecipient's audit period, (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.
- *Central Contractor Registration* – Identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintain the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)).

During-the-Award Monitoring

Following are examples of factors that may affect the nature, timing, and extent of during-the-award monitoring:

Monitoring activities normally occur throughout the year and may take various forms, such as:

- *Reporting* – Reviewing financial and performance reports submitted by the subrecipient.

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- *Site Visits* – Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- *Regular Contact* – Regular contacts with subrecipients and appropriate inquiries concerning program activities.

Special Tests and Provisions

R3 – Subrecipient Monitoring

Federal agencies must require recipients to agree to: (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds; and (2) require their subrecipients to provide similar identification in their SEFA and SF-SAC. Additional information, including presentation requirements for the SEFA and SF-SAC, is provided in Appendix VII (2 CFR section 176.210).

Condition

For 21 of the 25 subrecipients selected for testwork, the Department did not communicate the Federal award information to the subrecipient at the time of the award (e.g. the related CFDA title and number, award name, name of Federal agency). For 8 of 12 subrecipients that received ARRA funds, the Department did not communicate the Federal award information at the time of the disbursement of funds. The 21 subrecipients included in our sample received loan amounts of \$8,317,755 (including \$2,794,146 of ARRA). The total amount sampled was \$10,604,576 (including \$5,080,967 of ARRA) and the total amount loaned to subrecipients for the fiscal year was \$33,100,680 (including \$17,093,491 of ARRA).

Cause

The Department did not establish procedures within their award documentation or disbursement of ARRA funds to subrecipients to properly communicate required Federal award information.

Effect

The subrecipient may not be aware of the related grant that it is working on as well as the proper compliance requirements associated with the grant program and properly include the expenditures of the Federal program on its OMB Circular A-133 audit, if required.

Recommendation

We recommend that the Department establish procedures to properly communicate the required Federal award information to the subrecipient at the time of the award and at the disbursement of ARRA funds.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirements.

Questioned Costs

Cannot be determined

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See management's corrective action plan.

STATE OF NEW JERSEY

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Special Education Cluster (IDEA) (84.027, 84.173, 84.391, 84.392)

State Fiscal Stabilization Fund Cluster (84.394, 84.397)

Social Services Block Grant (93.667)

Medicaid Cluster (93.775, 93.777, 93.778)

State Agency: Department of Treasury, Office of Management and Budget

Federal Agencies: U.S. Department of Education

U.S. Department of Health and Human Services

Finding: 10-30 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Criteria

Section II costs – Direct Costs are chargeable to grant programs in accordance with Circular Letter A-87 and OASC-10.

Condition

The State of New Jersey, Department of Treasury, Office of Management and Budget prepares a Fringe Benefit Rate Proposal for negotiation with the United States Department of Health and Human Services. The negotiated fringe benefit rate is used by all State agencies, including State colleges, for estimating and computing actual charges for fringe benefit costs related to Federal programs in their indirect cost rate proposals, as well as, for direct billing of fringe benefit costs. The negotiated fringe benefit rate applies to personnel who are members of the Public Employees' Retirement System (PERS), Teacher's Alternate Benefit Plan (TABP), Teacher's Pension and Annuity Fund (TPAF), and Police and Fire Retirement System (PFRS), and all employees who are not members of a pension plan, but are covered for health benefits.

During our audit, we noted a mathematical, manual error in the computation of workers compensation appropriations disaggregated amongst the groups receiving benefits. This error was not detected through the State's limited review prior to submission of the plan to the Federal Government. This error only impacted the calculation of the negotiated PFRS fringe benefit rate. If the error did not occur, the PFRS fringe benefit rate would have been negotiated at 31.5% instead of 31.1%.

For the Medicaid Cluster, the PFRS fringe benefits are allocated to various organizations through the Division of Medical Assistance and Health Services (DMAHS) quarterly Cost Allocation Plans.

However, the amounts charged for fringe benefits for the Special Education Cluster, State Fiscal Stabilization Cluster, Social Services Block Grant program, and Medicaid Cluster were less than what could have been charged using both rates noted above.

A similar finding was included in the 2009 prior year single audit report as item 09-12.

Cause

There was a manual error data entering certain amounts in the spreadsheets utilized to calculate the fringe benefit rate.

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Effect

The State of New Jersey utilized an incorrect fringe benefit rate for PFRS in State fiscal year 2010.

Recommendation

We recommend that the State strengthen its procedures in the preparation and the review of the proposed fringe benefit rate plan to ensure that all costs and amounts entered to prepare the proposed fringe benefit rate are correct.

Related Noncompliance

Not applicable as this is an internal control finding.

Questioned Costs

None

View of Responsible Official

See management's corrective action plan.

STATE OF NEW JERSEY
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Low-Income Home Energy Assistance (93.568)

State Agency: Department of Community Affairs

Federal Agency: U.S. Department of Health and Human Services

Finding: 10-31 Reporting

Criteria

Financial Reporting

Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form). These other forms may include financial, performance, and special reporting. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. If the Federal awarding agency requires accrual information and the recipient's accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis. The awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of the prescribed formats.

Financial Status Report (FSR) (SF-269 (OMB No. 0348-0039) or SF-269A (OMB No. 0348-0038)). Recipients use the FSR to report the status of funds for all nonconstruction projects and for construction projects when the FSR is required in lieu of the SF-271.

Condition

For Federal fiscal year 2009, the Federal Financial Status (SF-269A) Report did not include the Federal share of the indirect expense (number 11) on the form. After review of the supporting documentation, it was determined that an amount should have been reported on the SF-269A, of \$100,156, as the Federal share of the indirect expenses.

Cause

The Department does not have adequate policies and procedures in place to ensure that the Federal financial report is properly completed, supported by accurate documentation and reviewed by a supervisor prior to its submission.

Effect

The Department did not report the correct Federal share of the indirect expenses to the Federal Government for the year ended June 30, 2010.

Recommendation

We recommend the Department implement procedures to ensure the Federal financial reporting is properly completed, supported by accurate documentation and reviewed by a supervisor prior to its submission.

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Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

See management's corrective action plan.

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

Low-Income Home Energy Assistance (93.568)

State Agency: Department of Community Affairs

Federal Agency: U.S. Department of Health and Human Services

Finding: 10-32 Subrecipient Monitoring

Criteria

Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

The LIHEAP Model Plan provided that each grantee is to be monitored at least once in a three year period beginning with Federal fiscal year 2008.

Condition

For four of the thirteen monitoring reports selected for testwork, the State was unable to provide any reports or supporting documentation noting that the reports had been monitored within the last three years. The amount passed through to the four subrecipients was \$17,988. The total amount of funds passed through to subrecipients in our sample was \$3,041,251 and for the fiscal year ended June 30, 2010 was \$23,095,309.

Cause

The Department does not have adequate policies and procedures in place to ensure that subrecipient monitoring is properly completed, supported by accurate documentation and reviewed by a supervisor prior to its submission.

Effect

The subrecipients that are not properly monitored may be spending Federal funds on unallowable activities.

Recommendation

We recommend the Department implement procedures to properly schedule timely reviews to ensure that subrecipient monitoring is properly completed within the required period.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

Cannot be determined

View of Responsible Official

See management's corrective action plan.

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Housing Voucher Cluster (14.871)

State Agency: Department of Community Affairs

Federal Agency: U.S. Department of Housing and Urban Development

Finding: 10-33 Special Tests and Provisions

Criteria

Depository Agreements

Public Housing Authorities (PHAs) are required to enter into depository agreements with their financial institutions in the form required by U.S. Housing and Urban Development (HUD). The agreements serve as safeguards for Federal funds and provide third-party rights to HUD (24 CFR section 982.156).

Condition

Program revenue related to the Section 8 Housing Voucher is deposited into a General Treasury account, which is also used for depositing other State funds. The State of New Jersey, Department of Treasury has a depository agreement on file for the General Treasury Account with its financial institution (Treasury/financial institution) however, it does not include all of the provisions on the standard HUD depository agreement. To satisfy the requirement to enter into a depository agreement to comply with the Federal requirements, the Department of Community Affairs (PHA) entered into a depository agreement with the Department of Treasury (Department/Department) dating back to the late 1970's under the direction of the U.S. Department of Housing and Urban Development.

The two depository agreements on file (Treasury/financial institution and Department/Department) contain ten of the twelve terms included in the standard HUD depository agreement (form HUD-51999 (6/91)). The provisions that are not included require HUD to be a third-party beneficiary of the agreement and require all modifications of the agreement to be approved by HUD.

Cause

The depository agreements were not updated for the inclusion of additional provisions on the standard HUD depository agreement as required by the Federal government.

Effect

Certain safeguarding and third-party rights to HUD are not included in the current agreements.

Recommendation

We recommend that the Department update the depository agreement it has to address the missing terms noted above.

Related Noncompliance

Based on the above, the Department was not fully in compliance with the above requirement.

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Questioned Costs

Cannot be determined

View of Responsible Official

See management's corrective action plan.

MANAGEMENT'S CORRECTIVE ACTION PLAN
(Unaudited)

STATE OF NEW JERSEY SINGLE AUDIT

FISCAL YEAR 2010



***VIEWS OF RESPONSIBLE OFFICIALS
AND CORRECTIVE ACTION PLANS
TO RESOLVE SINGLE AUDIT FINDINGS***

**STATE OF NEW JERSEY SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2010
VIEWS OF RESPONSIBLE OFFICIALS
AND CORRECTIVE ACTION PLANS FOR CURRENT YEAR FINDINGS**

Medicaid Cluster (93.775, 93.777, 93.778) State Agency: Department of Human Services Federal Agency: U.S. Department of Health and Human Services		
<i>Disclaimer of Opinion: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-1 09-1 08-1 07-42	<p><u>Response:</u></p> <p>The Division concurs with this audit finding and is committed to completing all MEQC review cycles, which per CMS must be completed sequentially. The Division will continue to work toward completing the MEQC reviews timely, consistent with available resources and federal requirements.</p> <p>The Bureau of Quality Control (BQC) is satisfied that this finding does not represent a weakness in the controls used to ensure the integrity of the QC review process.</p> <p><u>Corrective Action Plan:</u></p> <p>BQC will resume MEQC reviews of sampled Title 19 Medicaid cases for the second half of FFY 2008 (April 2008 – September 2008) when the FFY 2010 PERM cycle Title 19 Medicaid cases are completed or there is an increase of available resources (staff, state cars, etc.)</p>	<p>July 2011</p> <p>Claude Singleton (609) 588-2958</p>
Children's Health Insurance Program (93.767) State Agency: Department of Human Services Federal Agency: U.S. Department of Health and Human Services		
<i>Disclaimer of Opinion: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-2 No finding in prior year	<p><u>Response:</u></p> <p>The Division concurs with this audit finding. However, the review of CHIP eligibility determinations were performed in compliance with 42 CFR 431.50(b)(3) and the State Plan. This eligibility process monitoring activity existed before the inception of PERM and, except that the findings and reports are for internal use, now mimics PERM methodology.</p> <p>Bureau of Quality Control (BQC) staff reviewed CHIP cases (Title 21) for the sample months of July 2009 through December 2009. In December 2010, this staff was reassigned to perform Title 19 Medicaid case reviews to ensure that PERM reporting requirements are met.</p> <p>BQC is satisfied that this finding does not represent a weakness in the controls used to ensure the integrity of the QC review process.</p> <p><u>Corrective Action Plan:</u></p> <p>BQC will resume eligibility reviews of sampled Title 21 CHIP cases for the remainder of SFY 2010 (January 2010 – June 2010); when the FFY 2010 PERM cycle Title 19 Medicaid cases are completed or there is an increase of available resources (staff, state cars, etc.)</p>	<p>July 2011</p> <p>Claude Singleton (609) 588-2958</p>

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Medicaid Cluster (93.775, 93.777, 93.778) State Agency: Department of Health and Senior Services Federal Agency: U.S. Department of Health and Human Services		
<i>Suspension and Debarment</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-3 No finding in prior year	DHSS-Healthcare Facility Licensure will revise existing procedures for nursing facility initial application and annual license renewal to include a certification statement from each facility stating it is not suspended, debarred, or otherwise excluded from entering into the covered transaction. In addition, Healthcare Facility Licensure staff will verify that parties are not suspended, debarred, or otherwise excluded from entering into a covered transaction by routinely monitoring the Excluded parties List System (EPLS) maintained by the General Services Administration (GSA). Routine monitoring will consist of searching the EPLS for firms under Health and Human Services (HHS) authority. An electronic or paper copy will be signed and maintained by Healthcare Facility Licensing staff who performed the search and who reviewed the report to confirm that no current licensees appear on the list.	June 1, 2011 Barbara Goldman (609) 633-9034 Art Verpent (609) 984-8181
Children's Health Insurance Program (93.767) Medicaid Cluster (93.775, 93.777, 93.778) State Agency: Department of Human Services Federal Agency: U.S. Department of Health and Human Services		
<i>Activities Allowed or Unallowed and Allowable Costs/Cost Principles</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-4 No finding in prior year	<p>Response:</p> <p>A review of the timesheets confirmed that an employee had in fact been paid for time for which she should have been docked. The employee was notified of the overpayment and the time was recouped on PP# 04/2011 (1/29/11 – 2/11/11). Copies of the docking paperwork were provided to the auditor confirming the recoupment. Therefore, this finding with this employee has been resolved.</p> <p>Corrective Action Plan:</p> <p>With the implementation of NJ electronic Cost Accounting and Timesheet System (eCATS), we no longer have this issue. This overpayment occurred with the former manual system in which timesheets were not provided until after the payroll was completed. With the implementation of the eCATS time/payroll system, timesheets actually drive the pay time. Thereby, if a change needs to be made after payroll is submitted, the docking will automatically be applied to the next pay period.</p> <p>The eCATS system has built in edits that ensure any non-paid time-off is properly charged and contains manual and computer generated review so that future risks for non-allowable expenditures are mitigated.</p>	February 2011 Kim Burnett (609) 588-7870

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SNAP Cluster (10.551, 10.561) TANF Cluster (93.558, 93.714) CCDF Cluster (93.575, 93.596, 93.713) Medicaid Cluster (93.775, 93.777, 93.778) State Agencies: Department of Human Services Department of Health and Senior Services Federal Agencies: U.S. Department of Agriculture U.S. Department of Health and Human Services		
<i>Subrecipient Monitoring</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-5 No finding in prior year	The Division confirmed the registration for a sample of the county agencies however all agencies were not reviewed. The Division will contact the County Welfare Agencies and Child Care Resource & Referral Agencies and request that each agency submit documentation verifying that they are registered with the Central Contractor Registration (CCR).	June 30, 2011 Tom Mattaliano (609) 588-2056
Child Support Enforcement (93.563) ARRA – Child Support Enforcement (93.563) State Agency: Department of Human Services Federal Agency: U.S. Department of Health and Human Services		
<i>Reporting</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-6 09-7 08-2 07-5 06-1 05-7 04-18 03-7 02-6 01-6 00-30	DHS is in the process of having a RFP for the collection and disbursement of Child Support Collections Banking and Cash Management. The RFP requires the vendor to be responsible for all collections, deposit, disbursement and reconciliation of collections. It is anticipated that with all Banking and Cash Management being performed by a fully privatized State Disbursement Unit that reconciliation between the Child Support Bank Account and OCSE-34A Report will be complete.	June 30, 2012 Alisha Griffin (609) 584-5093

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CCDF Cluster (93.575, 93.596, 93.713) State Agency: Department of Human Services Federal Agency: U.S. Department of Health and Human Services		
<i>Subrecipient Monitoring</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-7 09-8 08-4 07-7	Child Care Operations within the Division of Family Development will continue to revise and strengthen its procedures related to subrecipient monitoring in order to ensure that findings are accurately communicated to the agencies and that they adhere to corrective action submission dates. The new Assistant Director of CCO will meet with the DFD Audit Liaison to review the procedures and work flow processes to ensure monitoring compliance and the efficient use of staff resources.	June 30, 2011 Margaret Milliner (609) 588-7796
Block Grants for the Prevention and Treatment of Substance Abuse (93.959) State Agency: Department of Human Services Federal Agency: U.S. Department of Health and Human Services		
<i>Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Availability, and Subrecipient Monitoring</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-8 No finding in prior year	<p>Most Contract Administrators (CA) use a standardized template to record contract payments made to Providers. The CA responsible for the Provider noted in this finding uses a separate tracking ledger that is included in the contract file where all payments made to Providers are recorded. Going forward all CAs will use the same standardized template for recording contract payments.</p> <p>Additionally, a separate unit (payment unit) within the fiscal office is charged with recording all payments with respective check numbers. Once a quarterly Report of Expenditures (ROE) is received from a Provider, the CA prepares a form titled the "FS 90." The FS 90 certifies that the Provider has submitted an ROE with allowable expenses. The FS 90 is forwarded to the payment unit to authorize continuing contract payments. The payment unit will not make payments to Providers unless an up to date FS 90 is on file.</p>	April 25, 2011 Jose Gonzalez (609) 984-6961
Block Grants for the Prevention and Treatment of Substance Abuse (93.959) State Agency: Department of Human Services Federal Agency: U.S. Department of Health and Human Services		
<i>Subrecipient Monitoring</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-9 09-4 08-3 07-2	Reporting: Quarterly Reports of Expenditures (ROEs) are due no later than 30 days after the end of the reporting period. DAS has developed a web-based contract processing system called the Contract Information Management System (CIMS). Starting on July 1, 2010 all ROEs are submitted electronically through CIMS. Effective September 2010, a new feature was added to CIMS that addresses the deficiency cited in this finding. If an ROE is not received within the prescribed submission timeframes CIMS will automatically send out an alert to Providers. The 1 st alert is sent one (1) day after the ROE is due to remind Providers the ROE has not been received and is late. If the ROE is still not received within fourteen (14) days after the reporting period ends, a 2 nd and final reminder is sent out to Providers advising them that if the ROE is not received within 7 days all contract payments will be suspended.	Reporting: October 2010 Site Visits: Beginning May 2, 2011 Jose Gonzalez (609) 984-6961

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	Site Visits: Until, and during a part of SFY 2010, The Center for Family Services was responsible for providing Addictions Hotline of New Jersey services. Prior to and during much of SFY 2010, DAS was in the process of identifying a new provider to deliver Addictions Hotline services. DAS anticipated that the new provider would begin services early in SFY 2010. However, there were numerous delays, and hotline services, provided by 211, did not actually begin until November 2010. DAS convenes bi weekly Contracts Coordinating meetings at which contract, fiscal, programmatic (Prevention & Treatment) and monitoring staff are present. DAS will ensure that the meeting agenda includes the latest contracting issues/developments for staff members to act on to ensure that all required site visits are conducted.	
Vocational Rehabilitation Cluster (84.126, 84.390) State Agency: Department of Human Services Federal Agency: U.S. Department of Education		
<i>Activities Allowed or Unallowed and Allowable Costs/Cost Principles</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-10 09-6 08-7	By May 31, 2011, Cost Allocation Plans (CAP's) for the quarters ended March 31, 2010 and June 30, 2010 will be completed. The December 31, 2009 CAP was completed February 15, 2011. The Accountant who performed this function left in September 2005. Due to the administrative hiring freeze, this position has remained vacant. Once approval to fill this position is received, the CAP's will be completed in a timely manner.	CAP Completions: Projected by May 31, 2011 Staffing: Ongoing Frank Scheick (973) 648-3126
Vocational Rehabilitation Cluster (84.126, 84.390) State Agency: Department of Human Services Federal Agency: U.S. Department of Education		
<i>Reporting</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-11 No finding in prior year	The Accountant who performed the function of federal financial reporting left in September 2005. Due to the administrative hiring freeze, this position has remained vacant. Once approval to fill this position is received, the financial reports will be completed in a timely manner.	Staffing: Ongoing Frank Scheick (973) 648-3126

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SNAP Cluster (10.551, 10.561) TANF Cluster (93.558, 93.714) State Agency: Office of Information Technology Federal Agencies: U.S. Department of Agriculture U.S. Department of Health and Human Services		
<i>Other Requirement—Information Technology General Controls</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-12 09-10 08-44 07-8	<p>1. Access at the Data Center Although the staff may have access to the HUB Data Center building, not all have access to the Computer/Server Rooms. The same security system mindset exists in all Office of Information Technology (OIT) buildings. Most Application Development staff granted access to the HUB building cannot access the Computer/Server areas. A list of staff having access to the named areas can be periodically supplied and reviewed. Since the FY10 Audit fieldwork concluded, the access listing to the Computer/Server Rooms has been further reduced.</p> <p>2. BULL Access/Monitoring of BULL Access OIT will pursue the reviewing and monitoring of the access rights for these shared accounts. Reviewing to inspect the shared account's activity and monitoring to determine the activity's propriety.</p> <p>3. Formal Testing and Sign-Off Process for Operation System Changes OIT maintained a log documenting patches applied to the operating system. OIT Circular #03-2009 titled, <u>BULL Operating System Formal Change Process for System Upgrades and Corrections</u> describes the documentation and Change Control procedures. Approval of these changes occur with the Deputy CTO; thereby promoting segregation of duties. These approvals will now be evidenced with signed and dated intra-agency memos. Patch log evidence will be expanded to reveal a given patch's life cycle.</p>	<p>1. Implementation started 01-20-11. 2. The procedures will be implemented 06-01-11. 3. Logging procedures implemented 04-15-11.</p> <p>Stephen Foundos (609) 633-8791</p>
Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559) State Agency: Department of Agriculture Federal Agency: U.S. Department of Agriculture		
<i>Reporting</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-13 No finding in prior year	<p>Procedure: On the working day closest to the 20th of each month my staff and I will meet to determine the due dates for reports and the date to start preparing the reports. The preparation of the reports will start a minimum of two working days before the reports are due to insure completion by the due date. This procedure implemented beginning April 2011.</p> <p>All 30-day reports (FNS-10, FNS-44, & FNS-418) will be submitted within 30 days following the last day of the reporting month. All 90-day reports (FNS-10, FNS-44, & FNS-418) will be submitted within 90 days following the last day of the reporting month. The annual FNS-13 report will be submitted within 120 days following the last day of the close of the state fiscal year.</p>	<p>April 7, 2011</p> <p>Robert Gibson (609) 984-1197</p>

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Child and Adult Care Food Program (10.558) State Agency: Department of Agriculture Federal Agency: U.S. Department of Agriculture		
<i>Reporting</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-14 No finding in prior year	<p>Procedure: On the working day closest to the 20th of each month my staff and I will meet to determine the due dates for reports and the date to start preparing the reports. The preparation of the reports will start a minimum of two working days before the reports are due to insure completion by the due date. This procedure implemented beginning April 2011.</p> <p>The FNS-44 30 day report will be submitted within 30 days following the last day of the reporting month. The FNS-44 90 day report will be submitted within 90 days following the last day of the reporting month.</p>	April 7, 2011 Robert Gibson (609) 984-1197
Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559) State Agency: Department of Agriculture Federal Agency: U.S. Department of Agriculture		
<i>Special Tests and Provisions</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-15 09-17 08-24	<p>The Division of Food and Nutrition has submitted numerous requests and justifications to fill the vacant auditor positions since May 2006. The requests to fill these positions have been denied repeatedly. Since the Division has not been able to fill the vacant auditor positions, we have engaged the services of two temporary employees. The temporary employees have been reviewing school district audits and assisting in the development of auditing procedures for the Division. The reviews encompass the evaluation of revenue and expenditures of school food service accounts to monitor the non-profit status as required by regulation. As part of the new auditing procedures being developed, Child Nutrition has been reviewing sponsor's school audits that received in excess of \$100,000 as required by State Circular Letter 04-04-OMB and has revised the Audit Checklist to include a signature.</p> <p>(As a side note, the Division of Food and Nutrition has recently received approval to fill two (2) auditor positions. The position vacancy notices were posted and closed on March 9th. We are currently waiting for lists to be developed and distributed for these positions. Child Nutrition will continue to proceed towards hiring these permanent employees/auditors as quickly as possible.)</p> <p>In the meantime, the temporary employees/auditors will review all School sponsors receiving over \$100,000 in a fiscal year. The temporary auditors will properly sign off on the Audit Checklist and maintain it on file. The supervisor will monitor this required task more closely to insure compliance. This procedure was implemented beginning April 2011.</p>	April 7, 2011 Robert Gibson (609) 984-1197

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Adoption Assistance (93.659) ARRA – Adoption Assistance (93.659) State Agency: Department of Children and Families Federal Agency: U.S. Department of Health and Human Services		
<i>Eligibility</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-16 09-26 08-25 07-41	<p>Subsidy Agreement Renewal:</p> <p>1. Subsidy Renewal Agreements related to SFY 2010 was not sent to the adoptive parents. (7 cases) DCF indicates that SFY 2010 renewals were affected by a complete overhaul of the annual renewal system in order to interface with the implementation of NJSPIRIT (SACWIS system). As a result, through Calendar Year 2009, renewals were sent late and others were blended into Calendar Year 2010. However the new system is now in place and fully functional as confirmed by the fact that the SFY 2011 renewals for these seven cited cases were on file in the record. The list of cases due each month for annual renewal is now generated through NJSPIRIT and monitored by an Administrative Analyst in the Office of Adoption Operations. DCF developed an automated system using bar scan technology to monitor the agreements returned and track those for whom a second mailing is required. DCF will continue this process of monitoring and tracking required agreements.</p> <p>2. Subsidy Renewal Agreements related to SFY 2010 was sent to the adoptive parents; however, they have not completed and returned it. (1 case) If an adoptive family does not return the annual renewal agreement, DCF sends a second packet and request for completion approximately 45 days after the initial request. Additionally, subsidy staff attempts to reach the adoptive family by phone to determine what the barrier is to completing the annual agreement. However, federal policy does not allow states to terminate subsidy for an eligible child regardless of whether the family fails to re-sign the agreement. Therefore, there are files in which DCF may have only the federally required initial agreement and lack the signed renewal. DCF maintains an Access database, which records the specific dates of both the initial mailing and the second mailing of the agreement to the family as required by state policy.</p>	<p>April 5, 2011</p> <p>Ellen Kelly (609) 984-6080</p> <p>April 5, 2011</p> <p>Ellen Kelly (609) 984-6080</p>
Foster Care—Title IV-E (93.658) ARRA – Foster Care—Title IV-E (93.658) Adoption Assistance (93.659) ARRA – Adoption Assistance (93.659) State Agencies: Office of Information Technology Department of Children and Families Department of Human Services Federal Agency: U.S. Department of Health and Human Services		
<i>Other Requirement—Information Technology General Controls</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-17 09-28 08-6	<p>1. NJSPIRIT Password Rules We are in the final stages of implementing our Active Directory Integration and Identity Management Project (ADAM). Once established, ADAM will enforce the rules necessary for compliance. DCF remains on target with the projected completion date of June 2011.</p>	<p>1. June 30, 2011</p> <p>Jason Ciseck - DCF (609) 292-6726</p>

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<p>2. <i>Disaster Recovery Test</i> DCF remains on target with the projected completion of a full DR within FY 2012. A DR test was performed in August 2010 and has provided valuable insight into the planning and design of NJ SPIRIT's new DR environment. The completion of this new DR environment is reliant on OIT purchasing the needed equipment.</p> <p>3. <i>Sensitive Access and Segregation of Duties</i> One user was identified in this year's KPMG audit as having the ability to create vendors in the Contract Management System (CMS) and approve payments in NJ SPIRIT. DCF corrected this issue immediately, by changing the user's security within NJ SPIRIT. The user no longer has supervisory approval rights in NJ SPIRIT. In compliance with the auditor's recommendation, DCF will enhance the already existing procedures concerning the addition and modification to both NJ SPIRIT and Contract Management System user accounts.</p> <ul style="list-style-type: none"> o Whenever a user obtains full approval access in the Contract Management System, a cross reference check of their NJ SPIRIT security will be conducted to ensure they do not have supervisory approval rights. o Whenever a user obtains supervisory approval rights within NJ SPIRIT, a cross reference check of their Contract Management System rights will be conducted to ensure they do not have full approval access. <p>This enhanced (manual) protocol will better eliminate the risk of this type of 'segregation of duties conflict' from happening throughout the year. This enhancement will be in place by 6/1/2011.</p> <p>DCF already has an established annual internal review protocol of all NJ SPIRIT users to ensure that workers do not have the conflicting access noted above. This review takes place in June of every year and serves as an additional safeguard. DCF will explore a NJ SPIRIT enhancement which would allow the application to verify security access between systems (NJ SPIRIT & CMS) to completely eliminate the possibility of this 'segregation of duties conflict' occurring in the future.</p> <p>4. <i>User Access Provisioning and Monitoring</i> Currently, DCF manually captures all user access modification requests related to NJ SPIRIT throughout the year. DCF has established protocol concerning the documentation, approval, and maintenance of these modifications requests. Due to a decision made by DCF administration, that security is decentralized and these manual records are kept in local offices throughout the State. As an internal check, DCF conducts an annual NJ SPIRIT user access review to ensure that all user access is up to date and correct. At this time, the centralized NJ SPIRIT security unit randomly samples 10% of these offices to further ensure that the day-to-day access modification protocol is being followed throughout the year and proper documentation is kept. DCF acknowledges that this current system is manual and is unable to be audited from within NJ SPIRIT. DCF will pursue the recommendation of maintaining a system log of user accounts. The NJ SPIRIT application will need to be enhanced to allow for the capturing of the historical user account information.</p>	<p>2. June 30, 2012 Jason Ciseck - DCF (609) 292-6726</p> <p>3. June 30, 2012 Jason Ciseck - DCF (609) 292-6726</p> <p>4. June 30, 2012 Jason Ciseck - DCF (609) 292-6726</p>
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Special Supplemental Nutrition Program for Women, Infants, and Children (10.557) Public Health Emergency Preparedness (93.069) Immunization Cluster (93.268, 93.712) HIV Care Formula Grants (93.917) State Agency: Department of Health and Senior Services Federal Agencies: U.S. Department of Agriculture U.S. Department of Health and Human Services		
<i>Subrecipient Monitoring</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-18 09-29	DHSS-Financial Services will revise the existing procedures related to updating the GSA Monitoring System. On an annual basis, the Director of Financial Services will assign a staff resource to verify the data entered to the System so that the system accurately reflects the findings on the audit reports.	June 1, 2011 Walter C. Valora (609) 633-1528 Marsha Lau (609) 633-2764
HIV Care Formula Grants (93.917) State Agency: Department of Health and Senior Services Federal Agency: U.S. Department of Health and Human Services		
<i>Earmarking</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-19 No finding in prior year	Management at the Division of HIV, STD and TB Services will conduct of an annual review at the midpoint of the grant period. This review will determine if the Department complies with the earmarking requirement for services provided to Women, Infant, Children, and Youth at a percentage of Ryan White Part B funds at, or above, the requirement stipulated in the application. If it is determined that DHSS is not in compliance, DHSS will seek a waiver from the Health Resources and Services Administration. In addition, Management is conducting an audit of the data used in preparing the FY10 report. If it is determined that the corrected data does in fact, show that the Department was in compliance for this period, the Department will report the audited result to the Health Resources and Services Administration.	October 1, 2011 Carmin Grasso (609) 984-6328

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Public Health Emergency Preparedness (93.069) State Agency: Department of Health and Senior Services Federal Agency: U.S. Department of Health and Human Services		
<i>Reporting</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-20 No finding in prior year	DHSS-Financial Services will modify procedures to include a review of the SF-425 Report and its supporting documentation on a quarterly basis by a staff resource not involved with filing the automated report.	June 1, 2011 Walter C. Valora (609) 633-1528
Disability Insurance/SSI Cluster (96.001) State Agency: Department of Labor and Workforce Development Federal Agency: Social Security Administration		
<i>Activities Allowed or Unallowed and Allowable Costs/Cost Principles</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-21 No finding in prior year	The duplicate payment was the result of a new vendor rebilling for an item billed by the predecessor vendor. A letter has been sent to the new vendor and LWD expects to recover the \$1,470 duplicate charge.	May 31, 2011 Gerald P. Calamia (609) 984-1779
Unemployment Insurance (17.225) ARRA – Unemployment Insurance (17.225) State Agency: Department of Labor and Workforce Development Federal Agency: U.S. Department of Labor		
<i>Cash Management</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-22 No finding in prior year	The Department did over-transfer \$95,000 from the Master Account to the Federal FAC Account. This did not result in any harm to the Federal program. The funds were subsequently transferred back to the Master Account.	Completed – March 2011 Gerald P. Calamia (609) 984-1779

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Vocational Rehabilitation Cluster (84.126, 84.390) State Agency: Department of Labor and Workforce Development Federal Agency: U.S. Department of Education		
<i>Cash Management</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-23 09-30 08-40	The Department did under-draw federal funds for three of the draws tested. Reconciliation of draws to expenditures is completed when the program ends. However, efforts will be enhanced to match all draws to the underlying support.	Completed – December 2010 Gerald P. Calamia (609) 984-1779
Highway Planning and Construction Cluster (20.205, 20.219) State Agency: Department of Transportation Federal Agency: U.S. Department of Transportation		
<i>Davis-Bacon Act</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-24 09-34	Civil Rights/Affirmative Action will provide draft language and corresponding forms to the Bureau of Construction Engineering, the unit responsible for revising and updating the Construction Procedures Handbook.	April 1, 2011 (Draft of language and forms development/revision) Amadeo Miro (609) 530-2151
Highway Planning and Construction Cluster (20.205, 20.219) State Agency: Department of Transportation Federal Agency: U.S. Department of Transportation		
<i>Subrecipient Monitoring</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-25 No finding in prior year	CFDA Number and other information were embedded in the current heading of the project specific agreement form as of March 2010 to insure that the recipients will receive the information at the time of the signing of the agreement. Corrective action has been implemented.	Recommendation implemented March 2010. Shukri Abuhuzeima (609) 530-4680

**STATE OF NEW JERSEY SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2010
VIEWS OF RESPONSIBLE OFFICIALS
AND CORRECTIVE ACTION PLANS FOR CURRENT YEAR FINDINGS**

National Guard Military Operations & Maintenance (O&M) Projects (12.401) ARRA – National Guard Military Operations & Maintenance (O&M) Projects (12.401) State Agency: Department of Military & Veterans Affairs Federal Agency: U.S. Department of Defense		
<i>Reporting</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-26 No finding in prior year	<p>The Fiscal Division of the Department of Military and Veterans' Affairs has conducted an extensive analysis and reconciliation of cost data submitted to the Fiscal Division from the Construction, Facilities, Management Office (CFMO) for all quarters as reported on the www.federalreporting.gov website. The reconciliation has been provided and the Fiscal Division will be making all required corrections in the New Jersey Comprehensive Financial System and to the website data for all quarters reported.</p> <p>For future reporting, the Fiscal Division will conduct an extensive review of all data submitted by the CFMO prior to submission to the federal reporting website.</p>	June 15, 2011 Roger Bushyeager (609) 530-6941
Title I, Part A Cluster (84.010, 84.389) Special Education Cluster (IDEA) (84.027, 84.173, 84.391, 84.392) Improving Teacher Quality State Grants (84.367) State Fiscal Stabilization Fund Cluster (84.394, 84.397) State Agency: Department of Education Federal Agency: U.S. Department of Education		
<i>Subrecipient Monitoring</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-27 09-42 08-46	<p><u>Response:</u> The Department of Education, Office of Fiscal Accountability and Compliance (OFAC) concurs that updates of the GSA online system were not completed after completing desk reviews of subrecipients' OMB Circular A-133 audit reports.</p> <p><u>Corrective Action Plan:</u> The OFAC will ensure that updates of the GSA system are performed following completion of desk reviews of subrecipients' OMB Circular A-133 audit reports.</p>	July 2011 Lisa D. McCormick (609) 292-7742

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Capitalization Grants for Clean Water State Revolving Funds (66.458) ARRA – Capitalization Grants for Clean Water State Revolving Funds (66.458) State Agency: Department of Environmental Protection Federal Agency: Environmental Protection Agency		
<i>Subrecipient Monitoring and Special Tests and Provisions</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-28 No finding in prior year	The Municipal Finance and Construction Element will establish a procedure whereby the loan recipients are notified at the time of the award the Federal award information (i.e. CFDA title and number; award name and number; and name of Federal awarding agency) that finances their project. For projects financed with Recovery Act funds, the Element will establish a procedure whereby the loan recipients are also notified with each disbursement the Federal award information (i.e. CFDA title and number; award name and number; and name of Federal awarding agency).	By March 2012 Gene Chebra (609) 292-8963
Capitalization Grants for Drinking Water State Revolving Funds (66.468) ARRA – Capitalization Grants for Drinking Water State Revolving Funds (66.468) State Agency: Department of Environmental Protection Federal Agency: Environmental Protection Agency		
<i>Subrecipient Monitoring and Special Tests and Provisions</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-29 No finding in prior year	The Municipal Finance and Construction Element will establish a procedure whereby the loan recipients are notified at the time of the award the Federal award information (i.e. CFDA title and number; award name and number; and name of Federal awarding agency) that finances their project. For projects financed with Recovery Act funds, the Element will establish a procedure whereby the loan recipients are also notified with each disbursement the Federal award information (i.e. CFDA title and number; award name and number; and name of Federal awarding agency).	By March 2012 Gene Chebra (609) 292-8963

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Special Education Cluster (IDEA) (84.027, 84.173, 84.391, 84.392) State Fiscal Stabilization Fund Cluster (84.394, 84.397) Social Services Block Grant (93.667) Medicaid Cluster (93.775, 93.777, 93.778) State Agencies: Department of Treasury, Office of Management and Budget Federal Agencies: U.S. Department of Education U.S. Department of Health and Human Services		
<i>Activities Allowed or Unallowed and Allowable Costs/Cost Principles</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-30 09-12	We agree with your recommendations to strengthen our procedures. The fringe benefit rate development is a manual process as has been noted in previous years. During the current fiscal year, we have developed detailed written procedures, redesigned reports, and reviewed the overall process we use to minimize errors in our rates. Management review has been improved by implementing a more detailed review of supporting documentation. These controls should improve procedures and minimize errors in future rates.	Implementation started during FY 2011 and is ongoing. Constance Marie Willett (609) 292-5269
Low-Income Home Energy Assistance (93.568) State Agency: Department of Community Affairs Federal Agency: U.S. Department of Health and Human Services		
<i>Reporting</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-31 No finding in prior year	Procedures to ensure that Federal financial reporting tasks are accurately and properly completed continue to be strengthened and refined by DCA. The omission noted by KPMG on one (1) SF-269A final report for Line 11 "Indirect Expense" is solely attributable to human error and was not identified in the report review process prior to being submitted to US-HHS. This report was amended and resubmitted to US-HHS on February 1, 2011. It should also be noted that Line 11 was properly completed on the interim SF-269A report submitted for this award and that the accounting records and support maintained was accurate and available. DCA will continue to examine its review and approval process to reduce risk and ensure that any future omissions are identified prior to report submission to the federal funding agency.	February 2011 Matt Cohen (609) 633-6129
Low-Income Home Energy Assistance (93.568) State Agency: Department of Community Affairs Federal Agency: U.S. Department of Health and Human Services		
<i>Subrecipient Monitoring</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-32 No finding in prior years	The LIHEAP Model Plan submitted to US-HHS for FFY 2010 details that new monitoring procedures were instituted by DCA for the program during FFY 2008. The new procedures implemented are patterned after CSBG program requirements and are more stringent than those required for LIHEAP. Per the Model Plan, a baseline-monitoring visit was to be conducted during FFY 2008 of every energy assistance grantee. The County Welfare Agencies (CWAs) were not included in this initial baseline due to the immaterial annual amount	September 30, 2011 Jose Sanchez (609) 984-6670

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	of funding provided to these agencies in relation to annual overall LIHEAP program funding provided to other types of subrecipients. The Model Plan states that grantees evaluated and deemed at risk would be monitored in FFY 2009; grantees deemed average would be monitored in FFY 2010; and grantees deemed high functioning would be monitored in FFY 2011. The audit finding cites four CWAs that DCA could not provide full, on-site monitoring documentation for from FFY 2008 to FFY 2010. DCA has grant agreements with 21 CWAs and 7 of these entities were monitored during CY 2010. DCA is currently under contract with Mercadien P.C. to monitor the remaining 14 CWAs (including the 4 cited in the finding) by no later than September 30, 2011. It should be noted that all CWAs and other subrecipients are routinely monitored by DCA through required reporting, regular contact, and general grant administration activities via the department's SAGE system.	
Housing Voucher Cluster (14.871) State Agency: Department of Community Affairs Federal Agency: U.S. Department of Housing and Urban Development		
<i>Special Tests and Provisions</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
10-33 No finding in prior year	NJDCA will work cooperatively with the NJ Department of the Treasury-Office of Management and Budget to update the current depository agreement between our two departments to include the two missing provisions cited by KPMG.	Projected completion: September 30, 2011 Deborah Heinz (609) 633-6177