



STATE OF NEW JERSEY

Single Audit Report

Year ended June 30, 2009

Independent Auditors' Report on Schedule of Expenditures of Federal Awards

Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133

STATE OF NEW JERSEY

Year ended June 30, 2009

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Independent Auditors' Report on 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, 2009. 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 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, 2009 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 16, 2010, except for note 6
which is as of June 24, 2010

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards (Restated)
Year ended June 30, 2009
(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	\$ 1,060	10
10.028	Wildlife Services	50	—
10.069	Conservation Reserve Program	183	176
10.156	Federal-State Marketing Improvement Program	24	—
10.163	Market Protection and Promotion	65	—
10.169	Specialty Crop Block Grant Program	67	14
10.304	Homeland Security - Agricultural	93	—
10.435	State Mediation Grants	10	—
10.450	Crop Insurance	153	—
10.458	Crop Insurance Education in Targeted States	103	—
10.475	Cooperative Agreements w/States for Intrastate Meat & Produce	345	—
	<i>SNAP Cluster:</i>		
10.551	Supplemental Nutrition Assistance Program (nonmonetary)	682,412	—
10.561	State Administrative Matching Grants for Supplemental Nutrition Assistance Program	88,830	71,460
10.561	State Administrative Matching Grants for Supplemental Nutrition Assistance Program, Recovery Act	699	699
	Total SNAP Cluster	771,941	72,159
	<i>Child Nutrition Cluster:</i>		
10.553	School Breakfast Program	40,600	40,600
10.555	National School Lunch Program	172,261	172,261
10.556	Special Milk Program for Children	789	789
10.559	Summer Food Service Program for Children	6,929	6,708
	Total Child Nutrition Cluster	220,579	220,358
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	118,141	19,009
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children, Recovery Act	1,674	—
	Total Special Supplemental Nutrition Program for Women, Infants, and Children	119,815	19,009
10.558	Child and Adult Care Food Program	61,253	60,414
10.560	State Administrative Expenses for Child Nutrition	3,271	—
	<i>Emergency Food Assistance Cluster:</i>		
10.568	Emergency Food Assistance Program (Administrative Costs)	1,926	1,396
10.569	Emergency Food Assistance Program (Food Commodities)	12,210	—
	Total Emergency Food Assistance Cluster	14,136	1,396
10.572	WIC Farmer's Market Nutrition Program (FMNP)	792	50
10.576	Senior Farmers' Market Nutrition Program	1,164	81
10.579	Child Nutrition Discretionary Grant Limited Availability, Recovery Act	843	843
10.582	Fresh Fruit and Vegetable Program	666	638
10.664	Cooperative Forestry Assistance	2,622	262
10.675	Urban and Community Forestry Program	203	—
10.676	Forest Legacy Program	1	—
10.677	Forest Land Enhancement Program (FLEP)	7	—
10.680	Forest Health Protection	2	—
10.913	Farm and Ranch Lands Protection Program	4,415	4,415
10.914	Wildlife Habitat Incentive Program (WHIP)	49	—
	Total U.S. Department of Agriculture	1,203,912	379,825
	U.S. Department of Commerce:		
11.407	Interjurisdictional Fisheries Act of 1986	62	—
11.413	Fishery Products Inspection and Certification	98	—
11.419	Coastal Zone Management Administration Awards	3,023	43
11.441	Regional Fishery Management Councils	207	—
11.474	Atlantic Coastal Fisheries Cooperative Management Act	51	—
11.550	Public Telecommunications Facilities - Planning and Construction	369	—
11.UNA	Unassigned catalog number from Federal Government	9	—
	Total U.S. Department of Commerce	3,819	43

STATE OF NEW JERSEY

Schedule of Expenditures of Federal Awards (Restated)

Year ended June 30, 2009

(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	\$ 577	—
12.401	National Guard Military Operations and Maintenance (O&M) Projects	43,563	—
12.UNA	Unassigned catalog number from Federal Government	118	—
12.UNA	Unassigned catalog number from Federal Government	1,659	—
12.CON	Contractual Agreement from Federal Government	264	264
	Total U.S. Department of Defense	46,181	264
	U.S. Department of Housing and Urban Development:		
14.228	Community Development Block Grants/State's Programs	9,147	8,802
14.231	Emergency Shelter Grants Program	1,948	1,899
14.235	Supportive Housing Program	976	94
14.238	Shelter Plus Care	1,739	—
14.239	HOME Investment Partnerships Program	6,823	3,186
14.241	Housing Opportunities for Persons with AIDS	1,812	—
14.241	Housing Opportunities for Persons with AIDS Pass-Through – Woodbridge Township	506	—
14.241	Housing Opportunities for Persons with AIDS Pass-Through – Camden	420	—
14.241	Housing Opportunities for Persons with AIDS Pass-Through – City of Paterson	640	—
	Total Housing Opportunities for Persons with AIDS	3,378	—
14.401	Fair Housing Assistance Program - State and Local	343	—
	Section 8 Project-Based Cluster:		
14.856	Lower Income Housing Assistance Program: Section 8 Moderate Rehabilitation	10,324	—
	Total Section 8 Project-Based Cluster	10,324	—
14.871	Section 8 Housing Choice Vouchers	190,303	182
14.900	Lead-Based Paint Hazard Control in Privately Owned Housing	480	409
14.UNA	Unassigned Catalogue Number from Federal Government	100	—
	Total U.S. Department of Housing and Urban Development	225,561	14,572
	U.S. Department of the Interior:		
	Fish and Wildlife Cluster:		
15.605	Sport Fish Restoration	2,786	—
15.611	Wildlife Restoration	1,627	—
	Total Fish and Wildlife Cluster	4,413	—
15.615	Cooperative Endangered Species Conservation Fund	159	—
15.616	Clean Vessel Act	278	225
15.622	Sport Fishing and Boating Safety Act	140	—
15.633	Landowner Incentive	448	365
15.634	State Wildlife Grants	801	—
15.808	U.S. Geological Survey - Research and Data Collection	47	—
15.809	National Spatial Data Infrastructure Cooperative Agreements Program	1	—
15.810	National Cooperative Geologic Mapping Program	121	—
15.904	Historic Preservation Fund Grants-in-aid	98	62
15.916	Outdoor Recreation - Acquisition, Development, and Planning	757	—
15.921	Rivers, Trails and Conservation Assistance	42	—
	Total U.S. Department of the Interior	7,305	652
	U.S. Department of Justice:		
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	766	75
16.320	Services for Trafficking Victims	104	—
16.523	Juvenile Accountability Incentive Block Grants	1,225	1,231
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	1,691	1,154
16.543	Missing Children's Assistance	292	1
16.544	Gang-free Schools and Communities - Community-based Gang Intervention	73	73

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Schedule of Expenditures of Federal Awards (Restated)
Year ended June 30, 2009
(Amounts in thousands)

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
16.548	Title V: Delinquency Prevention Program.	\$ 142	127
16.550	State Justice Statistics Program for Statistical Analysis Centers	50	—
16.554	National Criminal History Improvement Program (NCHIP)	559	100
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	83	12
16.564	Crime Lab Improvement Combined Offender DNA Index System Backlog Reduction	559	13
16.575	Crime Victim Assistance	8,580	7,203
16.576	Crime Victim Compensation	1,467	945
16.579	Edward Byrne Medical Formula Grant Program	487	154
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	34	—
16.582	Crime Victim Assistance/Discretionary Grant	(1)	—
16.588	Violence Against Women Formula Grants	2,718	2,069
16.593	Residential Substance Abuse Treatment for State Prisoners	222	22
16.601	Corrections - Training and Staff Development	2	—
16.606	State Criminal Alien Assistance Program	7,145	—
16.607	Bulletproof Vest Partnership Program	1,237	—
16.609	Community Prosecution & Project Safe Neighborhoods	690	509
16.727	Enforcing Underage Drinking Laws Program	302	247
16.735	Protecting Inmates and Safeguarding Communities Discretionary Grant Program (Prison Rape Elimination)	12	12
16.738	Edward Byrne Memorial Justice Assistance Program	5,684	3,656
16.741	Forensic DNA Backlog Reduction Program	73	—
16.742	Paul Coverdell Forensic Sciences Improvements Grant Program	258	150
16.744	Anti-Gang Initiative	403	378
16.745	Criminal & Juv Justice & Mental Health Collaboration Program	1	—
16.750	Support for Adam Walsh Act Implementation Grant Program	12	—
16.CON	Contractual Agreement – Domestic Marijuana Eradication	82	—
16.UNA	Unassigned Federal Number - Federal Forfeiture	210	—
	Total U.S. Department of Justice	35,162	18,131
	U.S. Department of Labor:		
17.002	Labor Force Statistics	2,462	—
17.005	Compensation and Working Conditions	330	—
	<i>Employment Services Cluster:</i>		
17.207	Employment Service/Wagner-Peyser Funded Activities	21,352	(337)
17.207	Employment Service/Wagner-Peyser Funded Activities, Recovery Act	1	—
17.801	Disabled Veterans' Outreach Program	2,101	—
17.804	Local Veterans' Employment Representative Program	1,065	—
	Total Employment Services Cluster	24,519	(337)
17.225	Unemployment Insurance – Federal	146,740	—
17.225	Unemployment Insurance – Federal, Recovery Act	206,800	—
17.225	Unemployment Insurance – State	5,283,620	—
	Total Unemployment Insurance	5,637,160	—
17.235	Senior Community Service Employment Program	3,057	—
17.235	Senior Community Service Employment Program, Recovery Act	48	—
	Total Senior Community Service Employment Program	3,105	—
17.245	Trade Adjustment Assistance: Workers	3,676	3,316
	<i>WIA Cluster:</i>		
17.258	Workforce Investment Act-Adult Program	32,511	17,311
17.258	Workforce Investment Act-Adult Program, Recovery Act	21	21
17.259	Workforce Investment Act-Youth Program	17,907	17,907
17.259	Workforce Investment Act-Youth Program, Recovery Act	135	135
17.260	Workforce Investment Act-Dislocated Workers	15,858	15,630
17.260	Workforce Investment Act-Dislocated Workers, Recovery Act	29	29
	Total WIA Cluster	66,461	51,033

STATE OF NEW JERSEY

Schedule of Expenditures of Federal Awards (Restated)

Year ended June 30, 2009

(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	\$ 742	—
17.266	Work Incentives Grant	446	146
17.268	H-1B High Growth Job Training Grants	569	555
17.273	Temporary Labor Certification for Foreign Workers	326	—
17.503	Occupational Safety & Health – State Program	1,918	—
17.504	Consultation Agreements	1,840	—
17.600	Mine Health and Safety Grants	33	—
	Total U.S. Department of Labor	5,743,587	54,713
	U.S. Department of Transportation:		
20.106	Airport Improvement Program	485	—
	<i>Highway Planning and Construction Cluster:</i>		
20.205	Highway Planning and Construction	740,304	157,323
20.205	Highway Planning and Construction, Recovery Act	37	—
20.219	Recreational Trails Program	990	819
	Total Highway Planning and Construction Cluster	741,331	158,142
20.218	National Motor Carrier Safety	4,483	—
20.232	Commercial Driver License State Programs	832	—
20.234	Safety Data Improvement Program	58	—
20.237	Commercial Vehicle Information System & Networks	1,241	—
20.505	Federal Transit: Metropolitan Planning Grants	2,397	—
	<i>Highway Safety Cluster:</i>		
20.600	State and Community Highway Safety	4,680	2,270
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	2,723	2,025
20.602	Occupant Protection	992	843
20.609	Safety Belt Performance Grants	3,144	2,491
20.610	State Traffic Safety Information System Improvement Grants	744	38
20.611	Grant to Prohibit Racial Profiling	154	132
20.612	Incentive Grant program to Increase Motorcyclist Safety	142	—
20.613	Child Safety and Child Booster Seats Incentive Grants	754	519
	Total Highway Safety Cluster	13,333	8,318
20.700	Pipeline Safety	40	40
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	254	159
20.CON	Contractual Agreements – Fatal Accident Reporting System	149	—
	Total U.S. Department of Transportation	764,603	166,659
	General Services Administration:		
39.011	Election Reform Payments	14	—
	Total General Services Administration	14	—
	National Foundation on the Arts and the Humanities:		
45.025	Promotion of the Arts: Partnership Agreements	1,047	477
	Total National Foundation on the Arts and the Humanities	1,047	477
	U.S. Department of Veterans Affairs:		
64.005	Grants to States for Construction of State Home Facilities	609	—
64.024	VA Homeless Providers Grant and Per Diem Program	20,267	—
64.101	Burial Expense Allowance for Veterans	503	—
64.125	Vocational and Educational Counseling for Servicemembers and Veterans	433	—
64.203	State Cemetery Grants	1,923	—
	Total U.S. Department of Veterans Affairs	23,735	—
	U.S. Environmental Protection Agency:		
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose		
	Activities Relating to Clean Air Act	1,765	—
66.040	State Clean Diesel Grant Program	5	—
66.202	Congressionally Mandated Projects	118	—
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	467	298
66.456	National Estuary Program	9	—
66.458	Capitalization Grants for Clean Water State Revolving Funds	32,122	30,793
66.461	Regional Wetland Program Development Grants	86	—

STATE OF NEW JERSEY

Schedule of Expenditures of Federal Awards (Restated)

Year ended June 30, 2009

(Amounts in thousands)

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	\$ 10	—
66.468	Capitalization Grants for Drinking Water State Revolving Fund	26,284	23,222
66.471	State Grants to Reimburse Operators of Small Water Systems for Training & Certification Costs	6	—
66.472	Beach Monitoring & Notification Program Implementation Grant	282	248
66.474	Water Protection Grants to the States	1	—
66.479	Wetland Program Grants - State/Tribal Environmental Outcome Wetland Demonstration Program	93	—
66.480	Assessment and Watershed Protection Program Grants	4	—
66.511	Office of Research & Development Consolidated Research/Training	68	—
66.605	Performance Partnership Grants	15,646	2,495
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	323	—
66.611	Environmental Policy and Innovation Grants	3	—
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	49	—
66.707	TSCA Title IV State Lead Grants: Certification of Lead-Based Paint Professionals	365	—
66.708	Pollution Prevention Grants Program	7	—
66.801	Hazardous Waste Management State Program Support	110	—
66.802	Superfund State, Political Subdivision, and Indian Tribe Site: Specific Cooperative Agreements	1,877	86
66.804	State & Tribal Underground Storage Tanks Program	500	—
66.805	Leaking Underground Storage Tank Trust Fund Program	1,198	—
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	58	—
66.817	State and Tribal Response Program Grants	802	—
	Total U.S. Environmental Protection Agency	82,266	57,142
	U.S. Department of Energy:		
81.041	State Energy Program	1,108	611
81.042	Weatherization Assistance for Low-Income Persons	4,541	4,021
81.042	Weatherization Assistance for Low-Income Persons, Recovery Act	1	—
	Total Weatherization Assistance for Low-Income Persons	4,542	4,021
81.117	Energy Efficiency and Renewable Energy Information, Dissemination, Outreach, Training and Technical Analysis/Assistance	19	—
81.ADM	Administration Costs Consolidations	108	—
	Total U.S. Department of Energy	5,777	4,632
	U.S. Department of Education:		
84.002	Adult Education: State Grant Program	19,234	16,698
84.010	Title I Grants to Local Educational Agencies	176,254	172,577
84.011	Migrant Education: State Grant Program	2,047	1,931
84.013	Title I Program for Neglected and Delinquent Children	2,607	462
	<i>Special Education Cluster:</i>		
84.027	Special Education: Grants to States	209,135	189,973
84.173	Special Education – Preschool Grants	5,488	5,001
	Total Special Education Cluster	214,623	194,974
84.032	Federal Family Education Loans	773,952	—
84.048	Career and Technical Education - Basic Grants to States	13,619	10,840
84.069	Leveraging Educational Assistance Partnership	1,803	—
	<i>Vocational Rehabilitation Cluster:</i>		
84.126	Rehabilitation Services: Vocational Rehabilitation Grants to States	66,953	33,644
84.390	Rehabilitation Services: Vocational Rehabilitation Grants to States, Recovery Act	1	—
	Total Vocational Rehabilitation Cluster	66,954	33,644
84.144	Migrant Education - Coordination Program	1	—
84.169	Independent Living: State Grants	564	564
84.177	Rehabilitation Services: Independent Living Services for Older Individuals Who are Blind	951	951
84.181	Special Education: Grants for Infants and Families with Disabilities	11,633	8,758
84.184	Safe and Drug-Free Schools and Communities: National Programs	202	25
84.185	Byrd Honors Scholarships	1,081	(6)
84.186	Safe and Drug-Free Schools and Communities: State Grants	4,288	3,615
84.187	Supported Employment Services for Individuals with Severe Disabilities	781	781

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Year ended June 30, 2009
(Amounts in thousands)

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
84.196	Education for Homeless Children and Youth	\$ 1,393	1,277
84.213	Even Start: State Educational Agencies	2,064	1,995
84.215	Fund for the Improvement of Education	686	532
84.224	Assistive Technology	362	346
84.243	Tech-Prep Education	1,964	1,845
84.265	Rehabilitation Training: State Vocational Rehabilitation Unit In-service Training	99	19
84.282	Charter Schools	2,345	2,192
84.287	Twenty-First Century Community Learning Centers	22,606	21,875
84.293	Foreign Language Assistance	41	—
84.298	State Grants for Innovative Programs	758	207
84.318	Education Technology State Grants	3,737	3,484
84.326	Tech Assistance & Dissemination for Children with Disabilities	6	—
84.330	Advanced Placement Program	241	—
84.331	Grants to States for Incarcerated Youth Offenders	616	—
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	3,614	3,133
84.336	Teacher Quality Enhancement Grants	910	12
84.357	Reading First State Program	14,073	12,747
84.365	English Language Acquisition Grants	9,480	8,422
84.366	Mathematics and Science Partnerships	2,775	2,620
84.367	Improving Teacher Quality State Grants	38,447	36,399
84.369	Grants for State Assessments and Related Activities	10,734	40
84.377	School Improvement Grant	4,437	4,092
84.378	College Access Challenge Grant Program	190	190
	<i>State Fiscal Stabilization Fund Cluster:</i>		
84.397	State Fiscal Stabilization Fund - Government Services, Recovery Act	162,239	—
	Total State Fiscal Stabilization Fund Cluster	162,239	—
84.CON	Contractual Agreements – National Center Educational Statistics	156	—
	Total U.S. Department of Education	1,574,567	547,241
	National Archives and Records Administration:		
89.003	National Historical Publications and Records Grants	37	35
	Total National Archives and Records Administration	37	35
	U.S. Election Assistance Commission:		
90.401	Help America Vote Act Requirements Payments	4,541	296
	Total U.S. Election Assistance Commission	4,541	296
	U.S. Department of Health and Human Services:		
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	193	—
93.041	Special Programs for the Aging: Title VII, Chapter 3: Programs for Prevention of Elder Abuse, Neglect, and Exploitation	146	21
93.042	Special Programs for the Aging: Title VII, Chapter 2: Long Term Care Ombudsman Services for Older Individuals	404	144
93.043	Special Programs for the Aging: Title III, Part D: Disease Prevention and Health Promotion Services	718	718
	<i>Aging Cluster:</i>		
93.044	Special Programs for the Aging: Title III, Part B: Grants for Supportive Services and Senior Centers	11,870	11,870
93.045	Special Programs for the Aging: Title III, Part C: Nutrition Services	20,378	19,294
93.053	Nutrition Services Incentive Program	3,986	3,986
93.705	Aging Home-Delivered Nutrition Services, Recovery Act	166	166
93.707	Aging Congregate Nutrition Services, Recovery Act	311	311
	Total Aging Cluster	36,711	35,627
93.048	Special Programs for the Aging: Title IV & Title II Discretionary Projects	269	13
93.051	Alzheimer's Disease Demonstration Grants to States	286	196
93.052	National Family Caregiver Support, Title III, Part E	5,021	4,931
93.086	Healthy Marriage Promotion & Responsible Fatherhood Grants	265	50
93.069	Public Health Emergency Preparedness	20,969	10,206
93.110	Maternal and Child Health Federal Consolidated Programs	81	—
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	4,492	3,057
93.116	Project Grants and Cooperative Agreements for Tuberculosis (nonmonetary)	166	—
	Total Project Grants and Cooperative Agreements for Tuberculosis Control Programs	4,658	3,057

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		Expenditures	Passed through to subrecipients
93.127	Emergency Medical Services for Children	\$ 195	—
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	198	55
93.136	Injury Prevention and Control Research and State and Community Based Programs	1,978	1,642
93.142	NIEHS Hazardous Waste Worker Health and Safety Training	96	—
93.150	Projects for Assistance in Transition from Homelessness	1,841	1,809
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	2,569	2,357
93.165	Grants to States for Loan Repayment Program	57	—
93.197	Childhood Lead Poisoning Prevention Projects: State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	747	295
93.204	Surveillance of Hazardous Substance Emergency Events	47	—
93.217	Family Planning Services	3,170	2,659
93.234	Traumatic Brain Injury: State Demonstration Grant Program	47	—
93.240	State Capacity Building	491	—
93.243	Substance Abuse and Mental Health Services: Projects of Regional and National Significance	630	187
93.251	Universal Newborn Hearing Screening	120	—
93.262	Occupational Safety and Health Program	106	—
93.268	Immunization Grants	5,920	2,097
93.268	Immunization Grants (nonmonetary)	64,111	—
	Total Immunization Grants	70,031	2,097
93.275	Substance Abuse and Mental Health Services: Access to Recovery	364	359
93.283	Centers for Disease Control and Prevention: Investigations and Technical Assistance	8,499	2,796
93.293	Public Health Law Social Distancing Project	503	8
93.393	Cancer Cause and Prevention Research	310	—
93.556	Promoting Safe and Stable Families	5,054	5,044
93.558	Temporary Assistance for Needy Families	362,826	319,533
93.563	Child Support Enforcement	164,099	41,094
93.564	Child Support Enforcement Research	137	—
93.566	Refugee and Entrant Assistance: State Administered Programs	3,206	2,340
93.568	Low-Income Home Energy Assistance	188,900	21,291
93.569	Community Services Block Grant	18,556	17,621
	<i>Child Care Cluster:</i>		
93.575	Child Care and Development Block Grant	101,575	100,315
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	79,516	76,940
	Total Child Care Cluster	181,091	177,255
93.576	Refugee and Entrant Assistance: Discretionary Grants	194	138
93.585	Empowerment Zones Program	2,257	2,257
93.586	State Court Improvement Program	593	15
93.590	Community Based Child Abuse Prevention Grants	602	600
93.597	Grants to States for Access and Visitation Programs	264	—
93.599	Chafee Education and Training Vouchers Program (ETV)	791	791
93.600	Head Start	206	—
93.617	Voting Access for Individuals with Disabilities Grants to State	448	448
93.630	Developmental Disabilities Basic Support and Advocacy Grants	1,525	560
93.643	Children's Justice Grants to States	544	522
93.645	Child Welfare Services: State Grants	6,023	—
93.652	Adoption Opportunities	121	74
93.658	Foster Care - Title IV-E	53,671	711
93.658	Foster Care - Title IV-E, Recovery Act	1,631	—
	Total Foster Care - Title IV-E	55,302	711
93.659	Adoption Assistance	49,299	—
93.659	Adoption Assistance, Recovery Act	2,362	—
	Total Adoption Assistance	51,661	—
93.667	Social Services Block Grant	56,863	33,222
93.669	Child Abuse and Neglect State Grants	534	534
93.670	Child Abuse and Neglect Discretionary Activities	48	46
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters: Grants to States and Indian Tribes	2,138	2,138

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards (Restated)
Year ended June 30, 2009
(Amounts in thousands)

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
93.674	Chafee Foster Care Independence Program	\$ 2,939	2,939
93.767	State Children's Insurance Program	404,524	368,855
93.768	Medicaid Infrastructure Grants – To Support the Competitive Employment of People With Disabilities	412	—
	<i>Medicaid Cluster:</i>		
93.775	State Medicaid Fraud Control Units	3,035	—
93.777	State Survey and Certification of Health Care Providers and Suppliers	12,534	—
93.778	Medical Assistance Program	5,212,996	3,833,058
93.778	Medical Assistance Program, Recovery Act	435,314	435,314
	Total Medicaid Cluster	5,663,879	4,268,372
93.779	Centers For Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	2,455	390
93.790	Community Partnership for Ed Express Care and Case Mgmt	1,156	—
93.791	New Jersey Money Follows the Person Project	134	23
93.889	National Bioterrorism Hospital Preparedness Program	13,922	9,590
93.913	Grants to States for Operation of Offices of Rural Health	121	121
93.917	HIV Care Formula Grants	34,405	31,353
93.926	Healthy Start Initiative	479	347
93.940	HIV Prevention Activities: Health Department Based	14,127	8,428
93.941	HIV Demonstration, Research, Public and Professional Education Project	186	—
93.944	Human Immunodeficiency Virus (HIV) Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	3,833	—
93.946	Cooperative Agreements to Support State Based Safe Motherhood and Infant Health Initiative Programs	83	—
93.958	Block Grants for Community Mental Health Services	15,736	15,411
93.959	Block Grants for Prevention and Treatment of Substance Abuse	52,562	44,343
93.977	Preventive Health Services: Sexually Transmitted Diseases Control Grants	3,099	103
93.977	Preventative Health Services Sexually Transmitted Diseases Control Grants (nonmonetary)	590	—
	Total Preventive Health Services: Sexually Transmitted Diseases Control Grants	3,689	103
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	361	101
93.991	Preventive Health and Health Services Block Grant	2,840	1,113
93.994	Maternal and Child Health Services Block Grant to the States	11,384	4,672
93.CON	Contractual Agreement	3,197	—
93.UNA	Federal Civil Monetary	31	—
	Total U.S. Department of Health and Human Services	7,498,158	5,451,622
	Corporation for National and Community Service:		
94.003	State Commissions	329	—
94.004	Learn and Serve America: School and Community Based Programs	436	250
94.006	AmeriCorps	2,548	2,115
94.007	Planning & Program Development Grants	17	—
94.009	Training & Technical Assistance	149	3
	<i>Foster Grandparents/Senior Companion Cluster:</i>		
94.011	Foster Grandparent Program	557	204
	Total Foster Grandparents/Senior Companion Cluster	557	204
94.013	Volunteers in Service to America	19	—
	Total Corporation for National and Community Service	4,055	2,572
	Social Security Administration:		
	<i>Disability Insurance/SSI Cluster:</i>		
96.001	Social Security - Disability Insurance	50,451	796
	Total Disability Insurance/SSI Cluster	50,451	796
	Total Social Security Administration	50,451	796

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards (Restated)
Year ended June 30, 2009
(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>		
97.067	Homeland Security Grant Program	\$ 15,115	11,908
	Total Homeland Security Cluster	15,115	11,908
	<i>Urban Areas Security Cluster:</i>		
97.008	Urban Areas Security Initiative	22,069	9,299
	Total Urban Areas Security Cluster	22,069	9,299
97.012	Boating Safety Financial Assistance	2,312	—
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	1,403	1,403
97.023	Community Assistance Program – State Support Services Element	228	—
97.029	Flood Mitigation Assistance	2,239	2,239
	<i>Public Assistance Grants:</i>		
97.036	Disaster Grants - Public Assistance (Residentially Declared Disasters)	2,197	1,601
	Total Public Assistance Grants	2,197	1,601
	<i>Hazard Mitigation Grants:</i>		
97.039	Hazard Mitigation Grant	16	—
	Total Hazard Mitigation Grants	16	—
97.041	National Dam Safety Program	51	—
97.042	Emergency Management Performance Grants	5,507	2,305
97.043	State Fire Training Systems Grant	20	—
97.047	Pre-Disaster Mitigation	347	346
97.056	Port Security Grant Program	1,403	86
97.070	Map Modernization Management Support	120	—
97.075	Rail and Transit Security Grant Program	3,015	—
97.078	Buffer Zone Protection Plan (BZPP)	1,996	1,996
97.091	Homeland Security Biowatch Program	386	—
97.092	Repetitive Flood Claims	656	656
	Total U.S. Department of Homeland Security	59,080	31,839
	Totals	\$ 17,333,858	6,731,511

STATE OF NEW JERSEY

Notes to Schedule of Expenditures of Federal Awards (Restated)

Year ended June 30, 2009

(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, 2009. 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, 2009.

(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, 2009 new loans guaranteed amounted to approximately \$659,528,000, loans repurchased during the year amounted to approximately \$96,679,000 and administrative costs amounted to approximately \$17,744,000 and are included in the accompanying Schedule. The principal outstanding for guaranteed loans at June 30, 2009 was \$4,149,949,000. 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 mechanism used by the U.S. Department of Agriculture (USDA) to make these funds available to States does not enable a State to validly disaggregate the regular and Recovery Act funds components of this figure. At the national aggregate level, however, Recovery Act funds account for approximately 15 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2009.

(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.

STATE OF NEW JERSEY

Notes to Schedule of Expenditures of Federal Awards (Restated)

Year ended June 30, 2009

(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.

(6) Restatement

During 2010, the State determined that certain American Reinvestment and Recovery Act grants included in the schedule of expenditures of Federal awards for the year ended June 30, 2009 should have been included as part of the Aging Cluster. These corrections resulted in the addition of the Aging Cluster as a major Federal program of the State of New Jersey for the year ended June 30, 2009.



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**Independent Auditors' Report on Compliance with Requirements
Applicable to 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 compliance of the State of New Jersey (the State) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2009. 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 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 item 09-1 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 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.



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 Health and Human Services	Office of Information Technology	SNAP Cluster/Child Support Enforcement/Temporary Assistance for Needy Families/Foster Care (including Recovery Act)/Adoption Assistance (including Recovery Act)/State Children's Insurance Program	Special tests and provisions	09-2
U.S. Department of Health and Human Services	Department of Human Services	Block Grants for the Prevention and Treatment of Substance Abuse	Subrecipient monitoring	09-4
U.S. Department of Health and Human Services	Department of Human Services	Block Grants for the Prevention and Treatment of Substance Abuse	Suspension and debarment	09-5
U.S. Department of Education	Department of Human Services	Vocational Rehabilitation Cluster	Activities allowed or unallowed/ Allowable costs/ cost principles	09-6
U.S. Department of Health and Human Services	Department of Human Services	Child Support Enforcement	Reporting	09-7
U.S. Department of Health and Human Services	Department of Human Services	Child Care Cluster	Subrecipient monitoring	09-8
U.S. Department of Agriculture/ U.S. Department of Health and Human Services	Department of Human Services	SNAP Cluster/ Temporary Assistance for Needy Families	Subrecipient monitoring	09-11
U.S. Department of Justice	Department of Law and Public Safety	Edward Byrne Memorial Justice Assistance Grant	Cash management	09-13
U.S. Department of Homeland Security	Department of Law and Public Safety	Homeland Security Cluster	Activities allowed or unallowed/ Allowable costs/ cost principles	09-14
U.S. Department of Homeland Security	Department of Law and Public Safety	Homeland Security Cluster	Cash management/ Period of availability/ Subrecipient monitoring	09-16
U.S. Department of Agriculture	Department of Agriculture	Child Nutrition Cluster	Special tests and provisions	09-17
U.S. Department of Agriculture	Department of Agriculture	Child Nutrition Cluster	Subrecipient monitoring	09-18
U.S. Department of Health and Human Services	Department of Community Affairs	Community Services Block Grant	Reporting	09-19
U.S. Department of Health and Human Services	Department of Community Affairs	Community Services Block Grant	Eligibility	09-20
U.S. Department of Health and Human Services	Department of Community Affairs	Community Services Block Grant	Subrecipient monitoring	09-21
U.S. Department of Health and Human Services	Department of Community Affairs	Low-Income Home Energy Assistance	Cash management	09-22



Federal awarding agency	State administering agency	Federal program	Compliance requirement	Finding number
U.S. Department of Health and Human Services	Department of Community Affairs	Low-Income Home Energy Assistance	Reporting	09-23
U.S. Department of Energy	Department of Community Affairs	Weatherization Assistance for Low-Income Persons (including Recovery Act)	Activities allowed or unallowed/ Allowable costs/ cost principles	09-24
U.S. Department of Energy	Department of Community Affairs	Weatherization Assistance for Low-Income Persons (including Recovery Act)	Reporting	09-25
U.S. Department of Agriculture/ U.S. Department of Health and Human Services	Department of Health and Senior Services	Special Supplemental Nutrition Program for Women, Infants, and Children (including Recovery Act)/ Immunization Grants/ Centers for Disease Control and Prevention: Investigations and Technical Assistance/ HIV Care Formula Grants	Subrecipient monitoring	09-29
U.S. Department of Labor	Department of Labor and Workforce Development	WIA Cluster	Subrecipient monitoring	09-33
U.S. Department of Transportation	Department of Transportation	Highway Planning and Construction Cluster	Davis-Bacon Act	09-34
U.S. Department of Transportation	Department of Transportation	Highway Planning and Construction Cluster	Subrecipient monitoring	09-35
U.S. Department of Defense	Department of Military and Veterans Affairs	National Guard Military Operations and Maintenance (O&M) Projects	Davis-Bacon Act/ Procurement	09-38
U.S. Department of Defense	Department of Military and Veterans Affairs	National Guard Military Operations and Maintenance (O&M) Projects	Reporting	09-39
U.S. Election Assistance Commission	Department of State	Help America Vote Act Requirements Payments	Subrecipient monitoring	09-40
U.S. Election Assistance Commission	Department of State	Help America Vote Act Requirements Payments	Level of effort	09-41
U.S. Department of Education	Department of Education	Special Education Cluster/ Career and Technical Education - Basic Grants to States/Improving Teacher Quality State Grants	Subrecipient monitoring	09-42
U.S. Department of Education	Department of Education	Career and Technical Education - Basic Grants to States	Reporting	09-43
U.S. Department of Education	Department of Education	Career and Technical Education - Basic Grants to States	Subrecipient monitoring	09-44
U.S. Department of Education	Department of Education	Career and Technical Education - Basic Grants to States	Suspension and debarment	09-45
U.S. Department of Education	Department of Education	Special Education Cluster	Subrecipient monitoring	09-46

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 are applicable to each of its major Federal programs, except for Medicaid Cluster which we disclaimed an opinion as discussed in the fourth paragraph, for the year ended June 30, 2009. 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 09-15, 09-30 and 09-37.



Internal Control over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items: 09-2, 09-3, 09-4, 09-5, 09-6, 09-7, 09-8, 09-9, 09-10, 09-11, 09-12, 09-13, 09-14, 09-15, 09-16, 09-17, 09-18, 09-19, 09-20, 09-21, 09-22, 09-23, 09-24, 09-25, 09-26, 09-27, 09-28, 09-29, 09-30, 09-31, 09-32, 09-33, 09-34, 09-35, 09-36, 09-37, 09-38, 09-39, 09-40, 09-41, 09-42, 09-43, 09-44, 09-45 and 09-46 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items: 09-2, 09-3, 09-4, 09-5, 09-6, 09-7, 09-8, 09-10, 09-11, 09-13, 09-14, 09-16, 09-17, 09-18, 09-19, 09-20, 09-21, 09-22, 09-23, 09-24, 09-25, 09-26, 09-27, 09-28, 09-29, 09-33, 09-34, 09-35, 09-36, 09-38, 09-39, 09-40, 09-41, 09-42, 09-43, 09-44, 09-45 and 09-46 to be material weaknesses.

The State's response 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 response, and accordingly, we express no opinion on it.

This report is different from that previously issued to add the Aging Cluster as a major program and to clarify the disclaimer of opinion on the Medicaid Cluster.

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 16, 2010, except for the Aging Cluster
which is as of June 24, 2010

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs (Restated)

Year ended June 30, 2009

(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, 2009.
- (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, 2009.
- (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, 2009.

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, 2009.
- (e) The type of report issued on compliance for major programs: (Restated)

Disclaimer:

Medicaid Cluster (including Recovery Act)

Qualifications:

Block Grants for the Prevention and Treatment of Substance Abuse

SNAP Cluster (including Recovery Act)

Temporary Assistance for Needy Families

Child Care Cluster

Child Support Enforcement

Vocational Rehabilitation Cluster (including Recovery Act)

Edward Byrne Memorial Justice Assistance Grant

Homeland Security Cluster

Help America Vote Act Requirements Payments

Child Nutrition Cluster

Low-Income Home Energy Assistance

Community Services Block Grant

Immunization Grants

Centers for Disease Control and Prevention: Investigations and Technical Assistance

HIV Care Formula Grants

Special Education Cluster

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs (Restated)

Year ended June 30, 2009

State Children's Insurance Program
 Career and Technical Education – Basic Grants to States
 Weatherization Assistance for Low Income Persons (including Recovery Act)
 Adoption Assistance (including Recovery Act)
 Foster Care – Title IV-E (including Recovery Act)
 Special Supplemental Nutrition Program for Women, Infants and Children (including Recovery Act)
 WIA Cluster (including Recovery Act)
 Unemployment Insurance (including Recovery Act)
 Improving Teacher Quality State Grants
 Highway Planning and Construction Cluster (including Recovery Act)
 National Guard Military Operations & Maintenance (O&M) Projects

The opinions for all other major programs are unqualified.

- (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, 2009.
- (g) The major Federal programs of the State of New Jersey for the year ended June 30, 2009 were as follows: (Restated)

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

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs (Restated)

Year ended June 30, 2009

Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
U.S. Department of Agriculture			
SNAP Cluster	10.551	12-35-344108	10/1/07 - 9/30/08
		12-35-344109	10/1/08 - 9/30/09
	10.561	12-35-344106	10/1/05 - 9/30/06
		12-35-344108	10/1/07 - 9/30/08
		12-35-344109	10/1/08 - 9/30/09
	10.561 (Recovery Act)	12-35-344109	3/1/09 - 9/30/09
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
	10.557 (Recovery Act)	1NJ70704	3/1/09 - 9/30/09
U.S. Department of Defense			
National Guard Military Operations & Maintenance (O&M) Projects	12.401	DAHA280421001	10/1/07 - 9/30/08
		DAHA280421021	10/1/08 - 9/30/09
U.S. Department of Justice			
Edward Byrne Memorial Justice Assistance Program	16.738	2005-DJ-BX-0108	10/1/04 - 9/30/08
		2006-DJ-BX-0023	10/1/05 - 9/30/09
		2007-DJ-BX-0099	10/1/06 - 9/30/10
		2009-DJ-BX-0801	10/1/08 - 9/30/12

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs (Restated)

Year ended June 30, 2009

Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
U.S. Department of Labor			
Employment Services Cluster	17.207, 17.801 17.804	ES-14884-05-55	7/1/05 - 9/30/08
		ES-15711-06-55	7/1/06 - 9/30/09
		ES-162340-07-55	7/1/07 - 9/30/10
		ES-17577-08-55	7/1/08 - 9/30/11
	17.207 (Recovery Act)	ES-17577-08-55	7/1/08 - 9/30/11
		E-9-5-8-5046	10/1/07 - 9/30/08
		E-9-5-9-5046	10/1/08 - 6/30/09
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
	17.225 (Recovery Act)	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	4/1/05 - 6/30/08
		AA-15494-06-55	4/1/06 - 6/30/09
		AA-16044-07-55	4/1/07 - 6/30/10
		AA-17137-08-55	4/1/08 - 6/30/11
	17.258, 17.259, 17.260 (Recovery Act)	AA-7137-08-55	4/1/08 - 6/30/11

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs (Restated)

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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 (Recovery Act)	Various	Various
	20.219	Various	Various
U.S. Department of Energy			
Weatherization Assistance for Low-Income Persons	81.042	DE-FG26-04R340650	4/1/06 - 3/31/07
		DE-FG-04R340650	4/1/07 - 3/31/08
		DE-FG-26-04R340650	4/1/08 - 3/31/09
		DE-FG-26-09EE000194	4/1/09 - 3/31/10
	81.042 (Recovery Act)	DE-FG-26-09EE000178	4/1/09 - 3/31/12
U.S. Department of Education			
Special Education Cluster	84.027	H027A050100A	7/1/05 - 9/30/06
		H027A060100A	7/1/06 - 9/30/07
		H027A070100A	7/1/07 - 9/30/08
	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
U.S. Department of Education			
Career and Techical Education - Basic Grants to States	84.048	V048A050030A	7/1/05 - 9/30/06
		V048A060030A	7/1/06 - 9/30/07
		V048A070030A	7/1/07 - 9/30/08
		V048A080030A	7/1/08 - 9/30/09

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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	H126A060043	10/1/05 - 9/30/06
		H126A070043	10/1/06 - 9/30/07
		H126A0800423	10/1/07 - 9/30/08
		H126A0900423	10/1/08 - 9/30/09
	84.390 (Recovery Act)	H126A0900423	10/1/08 - 9/30/10
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
		S367B030029	7/1/03 - 9/30/04
		S367B040029	7/1/04 - 9/30/05
		S367B050029	7/1/05 - 9/30/06
		S367A080029A	7/1/08 - 9/30/09
		S367B080027	7/1/08 - 9/30/09
U.S. Department of Education			
State Fiscal Stabilization Fund Cluster	84.397 (Recovery Act)	S397A090031	6/4/09 - 9/30/10
Election Assistance Commission			
Help America Vote Act Requirements Payments	90.401	N/A - State Plan only	N/A - State Plan only

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Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
U.S. Department of Health & Human Services			
Aging Cluster	93.044	08AANJT3SP	10/1/07 - 9/30/08
		09AANJT3SP	10/1/08 - 9/30/09
	93.045	08AANJT3SP	10/1/07 - 9/30/08
		09AANJT3SP	10/1/08 - 9/30/09
	93.053	08AANJNSIP	10/1/07 - 9/30/08
		09AANJNSIP	10/1/08 - 9/30/09
	93.705 (Recovery Act)	09AANJC2RR	3/18/09 - 9/30/10
	93.707 (Recovery Act)	09AANJC1RR	3/17/09 - 9/30/10
U.S. Department of Health & Human Services			
Immunization Grants	93.268	2H23IP222576-06	1/1/08 - 12/31/08
		2H23IP222576-07	1/1/09 - 12/31/09
U.S. Department of Health & Human Services			
Centers for Disease Control and Prevention: Investigations and Technical Assistance	93.283	5U90TP217004-08	8/31/07 - 8/9/08
		5U90TP217004-09	8/10/08 - 8/9/09
U.S. Department of Health & Human Services			
Temporary Assistance for Needy Families	93.558	G0701NJTANF	10/1/06 - 9/30/08
		G0802NJTANF	10/1/07 - 9/30/09
		G0902NJTANF	10/1/08 - 9/30/10
U.S. Department of Health & Human Services			
Child Support Enforcement	93.563	G0704NJ4004	10/1/06 - 9/30/08
		G0804NJ4004	10/1/07 - 9/30/09
		G0904NJ4004	10/1/08 - 9/30/10

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Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
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
U.S. Department of Health & Human Services			
Community Services Block Grant	93.569	G-07B1NJCOSR	10/1/06 - 9/30/08
		G-08B1NJCOSR	10/1/07 - 9/30/09
		G-09B1NJCOSR	10/1/08 - 9/30/10
U.S. Department of Health & Human Services			
Child Care Cluster	93.575	G0801NJCCD2	10/1/07 - 9/30/09
		G0901NJCCD2	10/1/08 - 9/30/10
	93.596	G0801NJCCDA	10/1/07 - 9/30/09
		G0901NJCCDA	10/1/08 - 9/30/10
		G0901NJCCDF	10/1/08 - 9/30/10
U.S. Department of Health & Human Services			
Foster Care - Title IV-E	93.658	G0601NJ1401	10/1/05 - 9/30/07
		G0701NJ1401	10/1/06 - 9/30/08
		G0801NJ1401	10/1/07 - 9/30/09
		G0901NJ1401	10/1/08 - 9/30/10
	93.658 (Recovery Act)	G0902NJ1402	10/1/08 - 9/30/10

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Major Program/Cluster	CFDA Number	Federal Award Number	Federal Award Period
U.S. Department of Health & Human Services			
Adoption Assistance	93.659	G0601NJ1407	10/1/05 - 9/30/07
		G0701NJ1407	10/1/06 - 9/30/08
		G0801NJ1407	10/1/07 - 9/30/09
		G0901NJ1407	10/1/08 - 9/30/10
	93.659 (Recovery Act)	G0902NJ1403	10/1/08 - 9/30/10
U.S. Department of Health & Human Services			
State Children's 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
U.S. Department of Health & Human Services			
Medicaid Cluster	93.775, 93.777, 93.778	050605NJ5028	7/1/05 - 6/30/07
		050605NJ5048	7/1/05 - 6/30/07
		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
	93.778 (Recovery Act)	0905NJ5028	7/1/08 - 6/30/10
		0905NJARRA	10/1/08 - 6/30/10

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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 00017-18-03	4/1/08 - 3/31/09
		2 X 07 HA 00017-19-00	4/1/09 - 3/31/10
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
U.S. Department of Homeland Security			
Homeland Security Cluster	97.067	2006-GET-60048	7/1/06 - 6/30/09
		2007-GET-70056	7/1/07 - 6/30/10

(h) The dollar threshold used to distinguish between type A and type B programs was \$30,000,000 for Federal awards for the year ended June 30, 2009.

(i) The State of New Jersey did not qualify as a low risk auditee for the year ended June 30, 2009.

(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, 2009 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 09-1 to 09-46.

APPENDIX OF FINDINGS

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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

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: Disclaimer of Opinion: 09-1 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

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Schedule of Findings and Questioned Costs

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(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>).

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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“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. The State Medicaid agency or its designee is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plan (42 CFR section 431.10).
- b. There are specific requirements that must be followed to ensure that individuals meet the financial and categorical requirements for Medicaid. These include that the State or its designee shall:
 - (1) Require a written application signed under penalty of perjury and include in each applicant’s case records facts to support the agency’s decision on the application (42 USC 1320b-7(d); 42 CFR sections 435.907 and 435.913).
 - (2) Use the income and eligibility verification system (IEVS) to verify eligibility using wage information available from such sources as the agencies administering State unemployment compensation laws, Social Security Administration (SSA), and the Internal Revenue Service to verify income eligibility and the amount of eligible benefits. With approval from HHS, States may use alternative sources for income information. States also: (a) may target the items of information for each data source that are most likely to be most productive in identifying and preventing ineligibility and incorrect payments, and a State is not required to use such information to verify the eligibility of all recipients; (b) with reasonable justification, may exclude categories of information when follow-up is not cost effective; and

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- (c) can exclude unemployment compensation information from the Internal Revenue Service or earnings information from SSA that duplicates information received from another source (42 USC 1320b-7(a); 42 CFR sections 435.948(e) and 435.953).
- (3) Require, as a condition of eligibility, that each individual (including children) requesting Medicaid services furnish his or her social security account numbers (SSN) and the State shall utilize the SSN in the administration of the program. The State shall not deny or delay services to an otherwise eligible applicant pending issuance or verification of the individual's SSN by SSA. If the applicant cannot recall the SSN or has not been issued a SSN, the agency must assist the applicant in completing an application for an SSN and either send the application to SSA or, if there is evidence that the applicant has been previously issued a SSN, request SSA to furnish the number. A State may give a Medicaid identification number to an applicant who, because of well-established religious objections, refuses to obtain a SSN. In redetermining eligibility, if the case record does not contain the required SSN, the agency must require the recipient to furnish the SSN (42 CFR section 435.920(b)) (42 USC 1320b-7(a)(1); 42 CFR sections 435.910 and 920).
- (4) Verify each SSN of each applicant and recipient with SSA to insure that each SSN furnished was issued to that individual and to determine whether any others were issued (42 CFR sections 435.910(g) and 42 CFR 435.920).
- (5) Document qualified alien status if the applicant or recipient is not a U.S. citizen (42 USC 1320b-7d).
- (6) Redetermine the eligibility of Medicaid recipients with respect to circumstances that may change (e.g., income eligibility), at least every 12 months. The agency may consider blindness and disability as continuing until the review physician or review team determines that the recipient's blindness or disability no longer meets the definition contained in the plan. There must be procedures designed to ensure that recipients make timely and accurate reports of any changes in circumstances that may affect their eligibility. The State must promptly redetermine eligibility when it receives information about changes in a recipient's circumstances that may affect his or her eligibility (42 CFR section 435.916).
- c. Qualified aliens, as defined at 8 USC 1641, who entered the United States on or after August 22, 1996, are not eligible for Medicaid 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 Medicaid to certain qualified aliens in accordance with the terms of 8 USC 1612(b)(2), provided that they meet all other eligibility requirements. States may provide Medicaid to all other otherwise eligible qualified aliens who are not barred from coverage under 8 USC 1613 (the five-year bar). All aliens who otherwise meet the Medicaid eligibility requirements are eligible for treatment of an emergency medical condition under Medicaid, as defined in 8 USC 1611(b)(1)(A), regardless of immigration status or date of entry.
- d. *Medicaid Eligibility Quality Control System (MEQC)*
- (1) States are required to operate a MEQC system in accordance with requirements established by CMS. The MEQC system redetermines eligibility for individual sampled cases of

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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

beneficiary eligibility made by State Medicaid agencies, or their designees. Statistical sampling methods are used to select claims for review and project the number and dollar impact of incorrect payments to ineligible beneficiaries (42 USC 1396b; 42 CFR sections 431.800 through 431.865).

- (2) However, most States are operating MEQC pilots or have been given a waiver from the traditional MEQC program described in regulation. The pilots and waivers differ from the traditional MEQC program by performing special studies, targeted reviews, or other activities that are designed to ensure program integrity or improve program administration (42 USC 1396b; 42 CFR sections 431.800 through 431.865).

Split Eligibility Determination Functions Compliance Requirement:

Some non-Federal entities pay the Federal benefits to the eligible participants but arrange with another entity to perform part or all of the eligibility determination. For example, a State arranges with local government social services agencies to perform the “intake function” (e.g., the meeting with the social services client to determine income and categorical eligibility) while the State maintains the computer systems supporting the eligibility determination process and actually pays the benefits to the participants. The State is fully responsible for Federal compliance for the eligibility determination as the benefits are paid by the State and State shows the benefits paid as Federal awards expended on the State’s Schedule of Expenditures of Federal Awards.

Condition

The State of New Jersey, Department of Human Services, Division of Medical Assistance and Health Services (DMAHS), utilizes its Bureau of Quality Control (the Bureau) to perform Medicaid Eligibility Quality Control (MEQC) positive case reviews of eligibility determinations, as well as to perform Negative Case Action (NCA) reviews of eligibility terminations, performed by the respective County Welfare Agencies (CWAs).

In order to perform these reviews, the Bureau selects a monthly sample. After the initial reviewer reviews a selected case, the Supervising Program Support Specialist will review the file. The Bureau then utilizes a “Medicaid Quality Control Summary Report” (551-B Form) to report any eligibility, processing, or other errors noted in the MEQC review. The CWAs are required to submit a “Response to Medicaid Quality Control Summary Report” (551-D Form) to the Bureau, noting whether they agree with the errors cited by the Bureau and the corrective action to be implemented.

The following was noted during testwork over the MEQC and PERM positive case reviews:

- The Bureau has not yet performed Medicaid eligibility positive case reviews for the period of January 1, 2008 through June 30, 2009.

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- For all of the MEQC positive cases reviewed by the Bureau for the period of October 1, 2007 through December 31, 2007, the Bureau performed the reviews subsequent to the review deadline outlined in 42 CFR 431.816.
 - For one of the forty sampled MEQC cases reviewed for the period of October 1, 2007 through December 31, 2007, there was no evidence of the signature page of the original application included in the file.
 - For one of the forty sampled MEQC cases reviewed for the period of October 1, 2007 through December 31, 2007, the Supervising Program Support Specialist included the review and approval date on the case cover sheet as evidence of review, however, did not sign off on the case cover sheet as required by Bureau policy.

Total program expenditures for the Medicaid Cluster included on the schedule of expenditures of federal awards was \$5,663,878,359 for the State fiscal year 2009.

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

Cause

Due to resource limitations, the Bureau did not perform all case reviews within the specified time periods and did not follow their prescribed guidelines for proper supervisory review of each case.

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 reviews of eligibility determinations performed at the CWAs on a timely basis and to strengthen its internal control procedures to ensure proper supervisory review of each case.

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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SNAP Cluster (10.551, 10.561)

Child Support Enforcement (93.563)

Temporary Assistance for Needy Families (93.558)

Foster Care – Title IV-E (93.658)

Foster Care – Title IV-E, Recovery Act (93.658)

Adoption Assistance (93.659)

Adoption Assistance, Recovery Act (93.659)

Medicaid Cluster (93.775, 93.777, 93.778)

State Children’s Insurance Program (93.767)

State Agency: Office of Information Technology

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

Finding: 09-2 Special Tests and Provisions

Criteria

ADP Risk Analysis and System Security Review

State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. State agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR section 95.621). The security requirements of 45 CFR section 95.621 apply to all ADP systems used by State and local Governments to administer programs covered under 45 CFR part 95, subpart F.

Condition

The State of New Jersey, Office of Information Technology (OIT) oversees the ADP risk analysis and system security review process. The most recent ADP risk analysis and system security review performed by OIT was as of December 2006. There was no ADP risk analysis or system security review performed by OIT during State fiscal year 2009. The ADP system security review would have been required by December 2008. Additionally, there have been significant changes to certain information systems which administer HHS programs and would require the ADP risk analysis to be performed.

Cause

Due to staffing issues at OIT, the required reviews were not performed.

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Effect

The administration of HHS programs is highly dependent on extensive and complex computer systems. Without the periodic review of system security and risk analyses, there are no assurances the appropriate safeguards are in place over the above programs.

Recommendation

We recommend that OIT perform the ADP system security review on a biennial basis and the risk analyses upon significant system changes for all programs involved in the administration of HHS programs as required by the Federal regulations.

Related Noncompliance

Based on the above, the State 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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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: 09-3 Special Tests and Provisions – Recertifications

Criteria

Provider Eligibility

In order to receive Medicaid payments, providers of medical services furnishing services must be licensed in accordance with Federal, State, and local laws and regulations to participate in the Medicaid program (42 CFR sections 431.107 and 447.10; and section 1902(a)(9) of the Social Security Act) and the providers must make certain disclosures to the State (42 CFR part 455, subpart B (sections 455.100 through 455.106)).

Condition

The State of New Jersey, Department of Health and Senior Services (the Department), Office of Certificate of Need and Healthcare Facility Licensure (the Office) oversees the licensing of long-term care facilities and the enrollment of such facilities in the Medicaid Cluster. The purpose of licensure is to ensure that the facilities are built and operated in accordance with standards appropriate to the provision of long-term care in a nursing home or other long-term care facility setting.

For three of thirty long-term care facilities selected for testwork, the Office could not provide evidence of recertification of the long-term care facility during State fiscal year 2009. The three long-term care facilities were eligible providers of the Medicaid program in State fiscal year 2008 as evidenced by their Continuation of Provider Agreements.

The total amount passed through to the three long-term care facilities in State fiscal year 2009 was \$13,053,847. Total program expenditures for the Medicaid Cluster by the Department during State fiscal year 2009 was \$1,427,813,100. Total program expenditures for the Medicaid Cluster included on the schedule of expenditures of federal awards was \$5,663,878,359 for the State fiscal year 2009.

Cause

The Office did not ensure that recertifications for participation in the Medicaid Cluster were included in the long-term care facilities' files.

Effect

Payments under the Medicaid Cluster may be processed on behalf of ineligible providers for services in a given fiscal year.

Recommendation

We recommend that the Department implement procedures to ensure that all existing long-term care facilities are properly recertified and such documentation is maintained in the respective files.

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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: 09-4 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 non-compliance.
- *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.

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- *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 non-compliance 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

During-the-Award Monitoring

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 all reports 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 ten 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.
- For five of forty subrecipients selected for testwork, we noted the expenditure reports were not reviewed within 30 days of the date of receipt 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 they may provide best practice suggestions to the subrecipient.

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These conclusions are communicated to the subrecipient in a report, which are signed and submitted by members of the respective agency and are reviewed and approved by the respective supervisor.

The following was noted during our testwork:

- For one of twenty-Prevention Agency subrecipients selected for testwork, we noted that the site visit was not performed for the contract period during State fiscal year 2009.

The amount expended for the subrecipients noted in the above conditions was \$8,534,831 and the total amount included in the sample was \$15,056,387. The total amount passed through to subrecipients for State fiscal year 2009 was \$44,343,218.

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

Cause

The Division did not ensure that the expenditure reports submitted by subrecipients were completed and reviewed and approved timely by a reviewer 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 reports for subrecipients are completed and reviewed and approved timely by the reviewer 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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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: 09-5 Suspension and Debarment

Criteria

Non-Federal 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. §__.220 of the government-wide nonprocurement debarment and suspension common rule contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal 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 (§__.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>).

Government-wide 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 common rule published November 26, 2003, is substantially the same as that rule. Most of the Federal agencies have adopted this guidance and relocated their associated agency rules in Title 2 of the CFR as final rules. For any agency that has not completed its adoption of 2 CFR part 180, pending completion of that adoption, agency implementations of the common rule remain in effect. Appendix II includes the current CFR citations for all agencies. In either case, the applicable requirements are specified in the terms and conditions of award.

Condition

Every agency and organization requesting federal funding under the Block Grant for Prevention and Treatment of Substance Abuse (PTSA) program submits an application and plan to the Department of Human Services, Division of Addiction Services (the Division). Included in the application for PTSA funds is Schedule G – Certification Regarding Debarment and Suspension and Schedule I – Certification Sheet, which must be signed by an authorized agency official. By signing Schedule G, the agency certifies that neither the agency nor its employees are suspended or debarred. By initialing and signing Schedule I, the agency certifies that an authorized representative has read Schedule G and that the agency is in compliance with the suspension and debarment requirements. The agency is required to keep Schedule G for their own records, but Schedule I must be returned to the Division.

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For three of thirty subrecipients selected for testwork, we noted that there was no evidence of a signed Schedule I Certification Sheet that is included with the application for funds maintained in the Division's records. 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 total amount expended by the three subrecipients during State fiscal year 2009 was \$2,116,776. The total amount expended by subrecipients during State fiscal year 2009 included in our sample was \$7,912,515. Total amounts passed to subrecipients for the State fiscal year 2009 was \$44,343,218.

Cause

The Division did not obtain suspension and debarment certifications from all of the program's subrecipients.

Effect

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

Recommendation

We recommend that the Division strengthen its 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

None

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: 09-6 - Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Criteria

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.

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

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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.

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).

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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

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 costs 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 March 31, 2009 and June 30, 2009.

Total program expenditures related to the Department were \$13,456,802.

A similar finding was included in the 2008 prior year single audit report as item 08-7.

Cause

Due to resource limitations, cost allocation plans are not prepared.

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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 for 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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Child Support Enforcement (93.563)

State Agency: Department of Human Services

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

Finding: 09-7 Reporting

Criteria

The state is required to submit the OCSE 34A Child Support Enforcement Program 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 reconciliations there are remaining unreconcilable differences, which vary on a monthly and quarterly basis from approximately \$2.9 million to \$26.6 million. The Department of Human Services identified possible general reasons for the differences which cannot be substantiated.

A similar finding was included in the 2008, 2007, 2006, 2005, 2004, 2003, 2002, 2001, and 2000 prior year single audit reports as items 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.

Questioned Costs

\$2.9 million to \$26.6 million (Represents the unreconciled differences range)

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View of Responsible Official

See management's corrective action plan.

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Child Care Cluster (93.575, 93.596)

State Agency: Department of Human Services

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

Finding: 09-8 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 non-compliance.
- *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.

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- *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 non-compliance 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.

For one 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 one of forty subrecipient monitoring files selected for testwork, the Division could not provide adequate documentation to support that a monitoring review had been performed during State fiscal year 2009. The contract amount provided to this subrecipient was \$181,308 for State fiscal year 2009, of which a portion related to this program.

Total payments to subgrantees during State fiscal year 2009 were \$114,813,769.

A similar finding was included in the 2008 and 2007 prior year single audit reports as items 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 awarded funding to agencies that are not fulfilling their obligations as subrecipients, while, the State is not properly monitoring its subrecipients.

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Recommendation

We recommend that the Division 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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Child Care Cluster (93.575, 93.596)

State Agency: Department of Human Services

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

Finding: 09-9 Period of Availability

Criteria

1. Discretionary Funds (CFDA 93.575) must be obligated by the end of the succeeding fiscal year after award, and expended by the end of the third fiscal year after award (42 USC 9858h(c); 45 CFR section 98.60).
2. Mandatory Funds (CFDA 93.596) for States must be obligated by the end of the fiscal year in which they are awarded if the State also requests Matching Funds (CFDA 93.596). If no Matching Funds are requested for the fiscal year, then the Mandatory Funds (CFDA 93.596) are available until expended (45 CFR section 98.60(d)).
3. Mandatory Funds (CFDA 93.596) for Tribes must be obligated by the end of the succeeding fiscal year after award, and expended by the end of the third fiscal year after award (45 CFR section 98.60(e)).
4. Matching Funds (CFDA 93.596) must be obligated by the end of the fiscal year in which they are awarded, and expended by the end of the succeeding fiscal year after award (45 CFR section 98.60(d)).

Condition

The Department of Human Services (the Department), Division of Family Development (the Division) is responsible for the administration of the Child Care Cluster (CCC) program, including monitoring compliance with period of availability requirements.

The Division had recorded expenditure modifications (EM) in the State of New Jersey's Comprehensive Financial System (NJCFIS), which is used to prepare the schedule of expenditure of federal awards (SEFA), related to fiscal year 2006 Matching Funds of \$5,185,107. As per 45 CFR section 98.60(d), the Matching Funds were supposed to be expended by the end of the succeeding fiscal year (end of fiscal year 2007). As a result of the reconciliation process, it was noted that these Matching Funds were reported in the SEFA for the State's fiscal year ended June 30, 2009, however, were properly claimed and reported in State fiscal year 2006 on the ACF-696, *Child Care and Development Fund Financial Report* (ACF-696 Report).

Total expenditures for Matching and Mandatory Funds (CFDA 93.596) were \$79,516,499, and are included in the SEFA.

A similar finding was included in the 2008 single audit report as item 08-9.

Cause

The Division did not properly reconcile expenditures claimed on the ACF-696 Report to the SEFA in the year in which the expenditures were reported.

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Effect

The expenditures for Matching Funds reported for the CCC program in the SEFA may not reconcile to expenditures claimed on the ACF-696 Report.

Recommendation

We recommend that the Division strengthen its procedures over ensuring that expenditures for Matching Funds for the CCC program per the SEFA are properly reconciled in a timely manner to the year in which they are claimed on the ACF-696 Report.

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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SNAP Cluster (10.551, 10.561)

Temporary Assistance for Needy Families (93.558)

State Agency: Office of Information Technology

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

Finding: 09-10 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. 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 limitation, a generic user account is shared by job schedule administrators to schedule batch jobs.

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

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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 2008 and 2007 prior year single audit reports as items 08-44 and 07-8, respectively.

Cause

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

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

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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Year ended June 30, 2009

SNAP Cluster (10.551, 10.561)

Temporary Assistance for Needy Families (93.558)

State Agency: Department of Human Services

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

Finding: 09-11 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 non-compliance.
- *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.

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- *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 non-compliance 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, Department of Human Services, Division of Family Development (DFD) is responsible for the addition/removal of DFD users on the Family Assistance Management Information System (FAMIS). The County Welfare Agencies (CWAs), which administer the SNAP and Temporary Assistance for Needy Families programs at the county (subrecipient) level, have a designated Information Security Officer that is responsible for the addition/removal of the subrecipients respective users of FAMIS. As part of DFD's overall subrecipient monitoring process, they ensure that the CWAs are in compliance for expending program funds in accordance with program requirements. However, DFD currently does not monitor the user access at the subrecipient level over FAMIS.

A similar finding was included in the 2008 and 2007 prior year single audit reports as items 08-45 and 07-9, respectively.

Cause

There is a lack of policies and procedures in place for granting, revoking and monitoring of user access at the subrecipient level over FAMIS.

Effect

The lack of granting, revoking and monitoring information security policies and procedures for managing user privileges on the system at the subrecipient level increases the risk of unauthorized or inappropriate access to FAMIS.

Recommendation

We recommend that user access policies and procedures are documented and distributed to the subrecipients and the Department develops and implements monitoring procedures to help ensure the policies and procedures are followed at the subrecipient level regarding access to FAMIS.

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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

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Year ended June 30, 2009

Edward Byrne Memorial Justice Assistance Grant (16.738)

Medicaid Cluster (93.775, 93.777, 93.778)

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

Federal Agencies: U.S. Department of Justice

U.S. Department of Health and Human Services

Finding: 09-12 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 36.6% instead of 36.3%.

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 both the Edward Byrne Memorial Justice Assistance Grant program and Medicaid Cluster were less than what could have been charged using both rates noted above.

Cause

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

Effect

The State of New Jersey utilized an incorrect fringe benefit rate for PFRS in State fiscal year 2009.

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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.

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Edward Byrne Memorial Justice Assistance Grant (16.738)

State Agency: Department of Law and Public Safety

Federal Agency: U.S. Department of Justice

Finding: 09-13 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 sub-recipients.

Pass-through entities must establish reasonable procedures to ensure receipt of reports on sub-recipients' 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 sub-recipients to assure that sub-recipients 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 sub-grantees 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 nonprofit 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.

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, which 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 Department's policy is to reimburse subrecipients after the receipt of the detailed cost statements. For four of the fourteen subrecipient reimbursements included in our sample, the Department funded an amount in excess of actual expenses incurred. The difference between actual expenses incurred and the amount funded was \$215,449. The total amount of payments to subrecipients included in the sample was \$1,065,471 and the payments passed through to subrecipients for State fiscal year 2009 was \$3,656,205.

A similar finding was included in the 2008 prior year single audit report as item 08-12.

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Cause

The Department did not follow the guidelines requiring all expenses be incurred before a subrecipient can receive funding. Additionally, the Department did not ensure the subrecipient reported interest earnings on the advanced funds.

Effect

Funds in excess of expenses are passed to subrecipients and interest earnings are not reported.

Recommendation

We recommend that the Department implement procedures to ensure funds are disbursed to subrecipients on a reimbursement basis and interest earned on excess funds is reported and remitted as required by Federal regulations.

Related Noncompliance

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

Questioned Costs

\$215,449

View of Responsible Official

See management's corrective action plan.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

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Homeland Security Cluster (97.067)

State Agency: Department of Law and Public Safety

Federal Agency: U.S. Department of Homeland Security

Finding: 09-14 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Criteria

Per OMB Circular A-87, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards:

- They must reflect an after-the-fact distribution of the actual activity of each employee,
- They must account for the total activity for which each employee is compensated,
- They must be prepared at least monthly and must coincide with one or more pay periods, and
- They must be signed by the employee.

Condition

For eleven (nine Office of Homeland Security and two Military and Veterans Affairs) of the nineteen employees selected for testwork, the employees did not have after the fact certifications prepared or signed by employees working on the grant as required by OMB Circular A-87 to support personnel costs charged to the program. The amount of payroll costs charged for the various pay-periods selected for testwork for these employees during 2009 was \$21,632.

Total personnel service expenditures charged to this program during State Fiscal Year 2009 were \$722,483 and the amount of expenditures included in the sample was \$52,903.

A similar finding was included in the 2008, 2007, 2006, 2006, 2004, 2003, 2002, 2001, and 2000 prior year single audit reports as items 08-18, 07-33, 06-18, 05-31, 04-26, 03-38, 02-34, 01-27, and 00-09, respectively.

Cause

The Department does not have adequate controls in place to ensure that employees working on grants prepare and sign certifications.

Effect

The program was charged for personal service costs but was not documented as having been incurred for the program.

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Recommendation

We recommend that the Department implement procedures to ensure that documentation and reporting of salaries and wages charged to the program are in accordance with OMB Circular A-87.

Related Noncompliance

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

Questioned Costs

\$21,632

View of Responsible Official

See management's corrective action plan.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

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Homeland Security Cluster (97.067)

State Agency: Department of Law and Public Safety

Federal Agency: U.S. Department of Homeland Security

Finding: 09-15 Equipment and Real Property Management

Criteria

Title to equipment acquired by a non-Federal entity with Federal awards vests with the non-Federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. However, consistent with a non-Federal entity's policy, lower limits may be established.

A State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures. Subrecipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a subgrant from a State.

Local governments and Indian tribes shall follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. Institutions of higher education, hospitals, and other non-profit organizations shall follow the provisions of OMB Circular A-110. Basically, the A-102 Common Rule and OMB Circular A-110 require that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained. When equipment with a current per unit fair market value of \$5,000 or more is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of Federal participation in the cost of the original project) amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.

Condition

One of forty equipment transactions selected for testwork the supporting documentation detailed the purchase as other than equipment. This expenditure was related to software development. Costs charged to the program for this transaction was \$73,911.

Total equipment expenditures charged to this program during State fiscal year 2009 were \$451,805 and the amount of equipment expenditures included in the sample was \$342,429.

A similar finding was included in the 2008, 2007, 2006, 2005, 2004, 2003, and 2002 prior year single audit reports as items 08-17, 07-32, 06-22, 05-30, 04-27, 03-39, and 02-36, respectively.

Cause

The Department's review procedures do not include reviewing supporting documentation to ensure costs are accurately classified in the State accounting system.

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Effect

Equipment purchased with Federal Funds is not readily identifiable by item or location and purchases may not be properly classified.

Recommendation

We recommend that the Department implement tracking procedures to identify equipment and to ensure that the proper classification of these expenditures in the State accounting system.

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

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Homeland Security Cluster (97.067)

State Agency: Department of Law and Public Safety

Federal Agency: U.S. Department of Homeland Security

Finding: 09-16 Cash Management, Period of Availability, and Subrecipient Monitoring

Criteria

Cash Management

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 ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.

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).

Except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act (31 USC 6501 *et seq.*) and the Indian Self-Determination Act (23 USC 450), interest earned by local government and Indian tribal government grantees and subgrantees on advances 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.

Period of Availability

Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, unobligated balances may be carried over and charged for obligations of a subsequent funding period. Obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-Federal entity during the same or a future period (A-102 Common Rule, §____.23; OMB Circular A-110 (2 CFR section 215.28)).

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Non-Federal entities subject to the A-102 Common Rule shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status report (SF-269) (NOTE: See L, "Reporting," regarding the transition from use of this form to a new governmentwide form). The Federal agency may extend this deadline upon request (A-102 Common Rule, §____.23).

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.
- *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 non-compliance.
- *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

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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 non-compliance 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 the forty subrecipient payments selected for testwork, the Department could not find the support for the reimbursement, and therefore we were unable to test the cash management, period of availability, and subrecipient monitoring requirements for this reimbursement. The amount of payment charged for this reimbursement during 2009 was \$87,274.

Total reimbursements to subrecipients charged to this program during State Fiscal Year 2009 were \$11,892,234 and the amount of expenditures included in the sample was \$4,903,108.

Cause

The Department does not have adequate controls in place to retain support for subrecipient reimbursements.

Effect

Cash management, period of availability, and subrecipient monitoring requirements may not have been followed.

Recommendation

We recommend that the Department implement procedures to ensure that documents are maintained.

Related Noncompliance

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

Questioned Costs

\$87,274

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: 09-17 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 funds 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.

The amount of funds passed through to SFAs for the State fiscal year was \$220,358,023.

A similar finding was included in the 2008 prior year single audit report as item 08-24.

Cause

The Department does not currently have a qualified individual identified to perform the necessary reviews of the SFAs to ensure that the SFAs are in compliance with the school food accounting requirements.

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 individual to review and perform follow up procedures, as applicable, on audit reports obtained from SFAs.

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

State Agency: Department of Agriculture

Federal Agency: U.S. Department of Agriculture

Finding: 09-18 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 (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 non-compliance.
- *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.

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- *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 non-compliance 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 is responsible for the performance of OMB Circular A-133 desk reviews for subrecipients. For eight of eight subrecipient audit reports that were not received during the required submission deadline, the Department did not perform any follow-up procedures to ensure the subrecipient's federal OMB Circular A-133 audit report was completed and submitted to the Department.

Total payments to subrecipients during State fiscal year 2009 for the Child Nutrition Cluster were \$220,358,023.

A similar finding was included in the 2008 prior year single audit report as item 08-47.

Cause

The Department did not have a formal policy or procedure for performing follow-up on subrecipients' OMB Circular A-133 reports to have a desk review performed.

Effect

Subrecipients may not be properly monitored to ensure compliance with Federal OMB Circular A-133 requirements.

Recommendation

We recommend that the Department implement a formal policy or procedure to perform appropriate follow-up procedures for subrecipient OMB Circular A-133 audit reports that are not submitted for desk review during the required submission timeframe.

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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Community Services Block Grant (93.569)

State Agency: Department of Community Affairs

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

Finding: 09-19 Reporting

Criteria

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 non-construction projects and for construction projects when the FSR is required in lieu of the SF-271.

Condition

For one out of the two SF-269A reports selected for testwork, the current period expenditures included within the SF-269A report for the period October 1, 2008 to September 30, 2009 for grant award G-09B1NJCOSR did not agree to the supporting documentation provided by the Department. The current period expenditures included within the SF-269A report was for a total \$8,392,654 and the supporting documentation indicated a total amount of \$8,132,645. The total difference between the supporting documentation and the SF-269A report is \$260,000.

Cause

The Department did not properly review the supporting documentation and the SF- 269A report to ensure that the current expenditures reported to the Federal government agreed to supporting documentation.

Effect

The expenditures reported on the SF-269A's may not be accurately stated based on supporting documentation.

Recommendation

We recommend that the Department strengthen review procedures to ensure that the amounts included within the SF-269A reports agree with supporting documentation.

Related Noncompliance

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

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Questioned Costs

\$260,000

View of Responsible Official

See management's corrective action plan.

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Community Services Block Grant (93.569)

State Agency: Department of Community Affairs

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

Finding: 09-20 Eligibility

Criteria

Subgrants may be made to the following entities, based on receipt of a community plan (42 USC 9908(b)(11):

- a. A private non-profit organization (including migrant farm worker organization) with a pre-existing designation as an “eligible entity” immediately prior to enactment of the new CSBG Act on October 27, 1999, and with a governance mechanism meeting the tripartite governing board requirement specified in 42 USC 9910(a)).
- b. A subdivision of State government with a pre-existing designation as an “eligible entity” immediately prior to enactment of the new CSBG Act, with a governance mechanism meeting either the “tripartite” board requirements or otherwise assuring decision-making and participation by low-income individuals in the development, planning, implementation, and evaluation of CSBG-funded programs (42 USC 9910(b)).
- c. A private non-profit organization or subdivision of State government newly designated by the State after October 27, 1999 as an “eligible entity” to provide services in an unserved area, in accordance with the criteria, requirements, and procedures specified by 42 USC 9909.

Condition

For eleven of the twenty-one subrecipients selected for testwork, the Department was unable to provide the qualifications used to support that the subgrantee was an “eligible entity” meeting the tripartite governing board requirement specified in 42 USC 9910(a) or 42 USC 9910(b), as applicable. Seven of the twenty-one subrecipients were cited for non-compliance by the Department of Community Affairs (DCA) during its subrecipient monitoring procedures while the remaining four were erroneously not cited as being noncompliant. The subrecipients for whom the Department was unable to provide documentation supporting their eligibility qualifications received Federal funds of \$2,788,601 during State fiscal year 2009. Total payments to subgrantees during State fiscal year 2009 were \$17,620,989 and the total amount of payments to subgrantees included in the sample was \$13,405,275.

A similar finding was noted in the 2008, 2007, 2006 and 2005 prior year single audit reports as items 08-29, 07-10, 06-44 and 05-57, respectively.

Cause

The Department does not have adequate policies and procedures in place to ensure that they receive and maintain information from its subgrantees documenting their governance mechanism in accordance with 42 USC 9910(b).

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Effect

The Department may be using Federal awards to fund ineligible subgrantees.

Recommendation

We recommend the Department establish procedures to monitor that subgrantees meet the requirements of an eligible entity prior to receiving Federal funds.

Related Noncompliance

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

Questioned Costs

\$2,788,601

View of Responsible Official

See management's corrective action plan.

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Community Services Block Grant (93.569)

State Agency: Department of Community Affairs

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

Finding: 09-21 Subrecipient Monitoring

Criteria

States must conduct full onsite reviews of each eligible subgrantee once every three years to check conformity with performance goals, administrative standards, financial management rules, and other requirements. States must conduct an onsite review of each newly designated entity immediately after the completion of the first year in which such entity receives CSBG funding. Follow-up reviews, including prompt return visits to eligible entities and their programs, are required for entities that fail to meet the goals, standards, and requirements established by the State (42 USC 9914(a)).

If a State finds a need for corrective action, the State must (1) inform the subgrantee of the deficiency and require correction; (2) offer training and technical assistance and report to OCS on that assistance, or explain why providing such assistance was not appropriate; (3) and receive an improvement plan from the subgrantee within 60 days, and approve (42 USC 9915). If the subgrantee fails to remedy the deficiency, the State may initiate proceedings to terminate the subgrantees eligibility or reduce its funding (42 USC 9908(b)(8) and 42 USC 9915(a)(5)).

Condition

For one of the twenty-one subgrantees selected for testwork, the Department did receive an improvement plan by the subgrantee; however, the Department was unable to provide evidence that the improvement plans were submitted by the subgrantee within 60 days as required by 42 USC 9915. The amount paid to this one subgrantee during State fiscal year 2009 was \$844,710.

For three of the twenty-one subgrantees selected for testwork, the Department did not perform follow up reviews with the subrecipients to ensure that they were properly establishing the procedures indicated within each respective subgrantees corrective action plan. The amount provided to these three subgrantees was \$2,025,336 (including the amount paid for the subgrantee above) for State fiscal year 2009.

Total payments to subgrantees during State fiscal year 2009 were \$17,620,989 and the total amount of payments to subgrantees included in the sample was \$10,368,997.

A similar finding was included in the 2008, 2007, 2006, 2005, and 2004 prior year single audit reports as items 08-30, 07-13, 06-43, 05-51, and 04-47, respectively.

Cause

The Department does not have adequate policies and procedures in place to ensure that its subgrantees are correcting deficiencies identified during onsite reviews.

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Effect

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

Recommendation

We recommend that the Department implement procedures to ensure its subgrantees provide improvement plans in accordance with Federal requirements.

Related Noncompliance

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

Questioned Costs

\$2,025,336

View of Responsible Official

See management's corrective action plan.

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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: 09-22 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

The State of New Jersey, Department of Treasury, Office of Management and Budget (the State or NJOMB) and the Secretary of the Treasury, U.S. Department of Treasury (U.S. Treasury), have entered into a Treasury State Agreement (TSA) under the provisions of the Cash Management Improvement Act of 1990 (CMIA) and 34 CFR Part 205 to improve the transfer of federal funds to the State for its administration of its federal programs covered under the TSA. Section 3.2 of the TSA states that the State must notify U.S. Treasury, or its designated agent, in writing within thirty days of the time the State becomes aware of a change that involves additions or deletions of programs subject to Subpart A, changes in funding techniques, and/or changes in

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clearance patterns, of which the notification must include a proposed amendment for review by U.S. Treasury, or its designated agent.

The Department did not perform drawdowns in accordance with the funding technique as specified in the Cash Management Improvement Act (CMIA) Agreement. The CMIA Agreement states that the Department is required to follow the Prior Month Actual, Mid-Monthly funding technique and shall request federal funds for this program such that they are deposited on the fifteenth calendar day of the month. The amount of the request is to represent the actual disbursements of the preceding month. The Department is drawing down program funds approximately every two weeks based on expenditure reports and not following the Prior Month Actual, Mid-Monthly funding technique.

A similar finding was included in the 2008 prior year single audit reports as items 08-32.

Cause

The Department was not fully aware of the CMIA requirements until during State fiscal year 2009 after being informed of the finding during the State fiscal year 2008 single audit.

Effect

Cash drawdowns may not be complete and accurate and the Department is not drawing federal grant funds in accordance with the CMIA Agreement.

Recommendation

We recommend that the Department strengthen the review and approval procedures to ensure the amounts drawn down are supported by underlying documentation from NJCFS and are drawn in accordance with the funding technique as specified in the CMIA Agreement.

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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Low-Income Home Energy Assistance (93.568)

State Agency: Department of Community Affairs

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

Finding: 09-23 Reporting

Criteria

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 non-construction projects and for construction projects when the FSR is required in lieu of the SF-271.

Condition

For one of the two SF-269A reports selected for testwork, we noted that for award G-9001NJLIEA the amount of unliquidated obligations and total outlays did not agree to supporting documentation. The SF-269 Report overstated unliquidated obligations by \$223,596 and understated total outlays by the same amount.

Also noted for the two SF-269 reports selected for testwork, the amount of total expenditures did not agree to supporting documentation. The total expenditures reported on the G-9001NJLIEA report total was understated by \$88,990 and the total expenditures reported on the G-08001NJLIEA report was understated by \$1,330,559.

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 claim accurate expenditures to the Federal Government for the year ended June 30, 2009.

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.

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Weatherization Assistance for Low-Income Persons (81.042)

Weatherization Assistance for Low-Income Persons, Recovery Act (81.042)

State Agency: Department of Community Affairs

Federal Agency: U.S. Department of Energy

Finding: 09-24 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Criteria

In accordance with OMB Circular A-87, for those employees who work solely on a single Federal award or cost objective, charges for their salaries and wages must be supported by at least semi annual certifications that the employees worked solely on that program for the period covered by the certification. These certifications must be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

For those employees who work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that meets the standards noted below:

- (a) They must reflect an after the fact distribution of the actual activity of each employee.
- (b) They must account for the total activity for which each employee is compensated.
- (c) They must be prepared at least monthly and must coincide with one or more pay periods.
- (d) They must be signed by the employee.

Condition

For seven out of twenty-eight employees selected for testwork, the support the Department provided (i.e. timesheets) for time charged to the program did not properly identify the employees time was related to the respective grant the employee was working on, and therefore it is undeterminable if an employee's time was appropriately allocated or allowable.

Total personal service expenditures for the program during State fiscal year 2009 were \$461,444 and are included as questioned costs.

Cause

The Department does not have adequate controls in place to ensure that employees working on grants prepare and sign proper certifications allocating their time.

Effect

Disbursements made for personal service costs may not be properly charged to the program.

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Recommendation

We recommend that the Department implement procedures to ensure that employee timesheets include a time and effort section in order to properly allocate their time and salaries to each respective grant.

Related Noncompliance

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

Questioned Costs

\$461,444

View of Responsible Official

See management's corrective action plan.

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Weatherization Assistance for Low-Income Persons (81.042)

Weatherization Assistance for Low-Income Persons, Recovery Act (81.042)

State Agency: Department of Community Affairs

Federal Agency: U.S. Department of Energy

Finding: 09-25 Reporting

Criteria

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 non-construction projects and for construction projects when the FSR is required in lieu of the SF-271.

Condition

For the two quarterly SF-269 reports selected for testwork, the amounts of unliquidated obligations did not agree to supporting documentation. The unliquidated obligations for the SF-269 reports for the quarters ending March 31, 2009 and June 30, 2009 were understated by \$5,915,775 and \$2,306,484, respectively.

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 claim accurate expenditures to the Federal Government for the quarters ended March 31, 2009 and June 30, 2009.

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.

Related Noncompliance

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

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Questioned costs

None

View of Responsible Official

See management's corrective action plan.

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Adoption Assistance (93.659)

Adoption Assistance, Recovery Act (93.659)

State Agency: Department of Children and Families

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

Finding: 09-26 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 ten of forty cases selected for testwork the subsidy agreement renewal form was not included in the file. 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.

Additionally, as part of the Department's policy Title IV-E Eligibility Determination forms are required to be completed prior to the finalization of adoption. We noted for five of the forty cases selected for testwork the Title IV-E Eligibility Determination form was completed after the finalized adoption date, but before the case was federally claimed. There are no questioned costs associated with these cases as the Title IV-E Determination form is required to be completed prior to the finalization of adoption to comply with Department policy and is not required according to Federal regulations.

A similar finding was included in the 2008 and 2007 prior year single audit reports as items 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

Claims could be made on behalf of ineligible recipients.

Recommendation

The Department should ensure that the adoption assistance documentation is complete, accurate and timely for proper eligibility 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)

Foster Care – Title IV-E, Recovery Act (93.658)

State Agency: Department of Children and Families

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

Finding: 09-27 Eligibility

Criteria

Code of Federal Regulations Title 45 Sec. 206.10 Application, determination of eligibility and furnishing of assistance.

- (a) State plan requirements. A State plan under title I, IV-A, X, XIV, or XVI (AABD), of that Social Security Act shall provide that:
 - (9) Where an individual has been determined to be eligible, eligibility will be reconsidered or redetermined:
 - (i) When required on the basis of information the agency has obtained previously about anticipated changes in the individual's situation;
 - (ii) Promptly, after a report is obtained which indicates changes in the individual's circumstances that may affect the amount of assistance to which he is entitled or may make him ineligible; and
 - (iii) Periodically, within agency established time standards, but not less frequently than every 12 months in OAA, AB, APTD, and AABD, on eligibility factors subject to change. For recipients of AFDC, all factors of eligibility will be redetermined at least every 6 months except in the case of monthly reporting cases or cases covered by an approved error-prone profiling system as specified in paragraph (a)(9)(iv) of this section. Under the AFDC program, at least one face-to-face redetermination must be conducted in each case once in every 12 months.
 - (iv) In accordance with paragraph (a)(9)(iii) of this section, under an alternative redetermination plan based on error-prone profiling, which has been approved by the Secretary, and includes:
 - (A) A description of the statistical methodology used to develop the error-prone profile system upon which the redetermination schedule is based;
 - (B) The criteria to be used to vary the scope of review and to assign different types of cases; and
 - (C) A detailed outline of the evaluation system, including provisions for necessary changes in the error-prone output, such as types of cases, types of errors, frequencies of redeterminations and corrective action.

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Condition

As part of the State plan requirements and Department policy foster care revenue specialists are required to complete a Title IV-E Eligibility Redetermination form for each consecutive year that the child remains in foster care. We noted for two of forty cases selected for testwork the Title IV-E Eligibility Redetermination form was not included in the file and evidence was subsequently printed from the New Jersey Statewide Protective Investigation, Reporting and Information Tool (NJSPIRIT), indicating that a redetermination was completed; however, not in a timely manner.

A similar finding was included in the 2008 prior year single audit report as item 08-27.

Cause

The Department did not ensure that all required forms were complete and included in the files in a timely manner.

Effect

Claims could be made on behalf of ineligible recipients.

Recommendation

The Department should ensure that the foster care documentation is complete, accurate and timely for proper eligibility determination and redetermination.

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)

Foster Care – Title IV-E, Recovery Act (93.658)

Adoption Assistance (93.659)

Adoption Assistance, Recovery Act (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: 09-28 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.

2. Formal Testing and Sign-Off Process for Database Changes

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- Approvals for patches applied to the database servers were not available for review and could not be validated.

3. *Disaster Recovery Test*

- A disaster recovery test was not performed for NJSPIRIT during State fiscal year 2009.

4. *Sensitive Access and Segregation of Duties*

- All central and local office users had the ability to update rate tables in NJSPIRIT during State fiscal year 2009.
- As noted in our 2008 testwork, twelve NJSPIRIT users, who have supervisory rights in NJSPIRIT, also had the ability to create vendors in the Contract Management System.

5. *Formal Sign-Off for Conversion of Fiscal Balances and Post-Go-Live Conversion Related Data Updates*

- Fiscal balances for vendors, open invoices, and other balances converted as part of conversion process to NJSPIRIT were not formally approved.
- As noted in our 2008 testwork, approvals for eighteen of twenty-five post-go-live conversion related data cleansing incidents were not available for review and could not be validated.

6. *User Access Provisioning and Monitoring*

- User access modifications to NJSPIRIT and supporting approvals are not documented and could not be validated.
- Periodic user access reviews for the NJSPIRIT application and supporting operating and database applications were not conducted during State fiscal year 2009.

A similar finding was included in the 2008 prior year single audit report as item 08-6.

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 2009, 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. *Formal Testing and Sign-Off Process for Database Changes*

- There were four database patches applied to the NJSPIRIT supporting Oracle database. These patches were tested in a “TEST” environment and verbal approvals for migrating these patches into

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production were obtained. As the supporting change request for these patches were not properly documented, we were unable to validate the approvals obtained.

3. *Disaster Recovery Test*

- During State fiscal year 2009, disaster recovery tests were not performed for the NJSPIRIT application.

4. *Sensitive Access and Segregation of Duties*

- During State fiscal year 2008, the NJSPIRIT application was stabilizing and management was in the process of defining the roles and responsibilities amongst users. During this time, all central and local office users by default were granted access to the critical rate tables. Twelve users with full access to the Contract Management System also have supervisory rights in the NJSPIRIT application. Full access in the Contract Management System allows these users to create/update vendors and supervisory rights allow them process/approve payments within NJSPIRIT. Access to the Contract Management System should be restricted to individuals from the Contract Management Office, which is responsible for managing vendors.

5. *Formal Sign-Off for Conversion of Fiscal Balances and Post-Go-Live Conversion Related Data Updates*

- As part of the conversion process to the NSPIRIT application, fiscal balances, such as vendor balances, total open invoices and others, were not formally approved. Only client-related data and service payment rate tables were formally approved as part of the conversion process. During State fiscal year 2008, eighteen of twenty-five post-go-live conversion data conversion cleansing incidents, and the related release approvals required for cleansing the production data were not available for review and could not be validated.

6. *User Access Provisioning and Monitoring*

- During State fiscal year 2009, user access modification requests and approvals for the NJSPIRIT application were not consistently documented.
- DCF is responsible for conducting periodic reviews over user access for the NJSPIRIT application. DHS is responsible for conducting periodic reviews over user access for the supporting operating and database for the NJSPIRIT application. During State fiscal year 2009, these periodic reviews of user access pertaining to the NJSPIRIT application and the supporting infrastructure were not performed.

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. *Formal Testing and Sign-Off Process for Database Changes*

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- The absence of documenting proper change control procedures may result in unauthorized changes to the NJSPIRIT application and its related infrastructure.

3. *Disaster Recovery Test*

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

4. *Sensitive Access and Segregation of Duties*

- The granting of access to critical rate tables to individuals with no defined role or responsibility in maintaining these tables could result in unauthorized or inadvertent updates to the approved rates, which could lead to improper client or vendor related payments.
- The absence of proper segregation of duties between vendor management and payment functions may result in unauthorized or improper payments to vendors.

5. *Formal Sign-Off for Conversion of Fiscal Balances and Post-Go-Live Conversion Related Data Updates*

- The absence of formal validation and approval of fiscal balances converted to the NJSPIRIT application could result in undetected data discrepancies, which could impact the fiscal and reporting aspects of the NJSPIRIT application.
- The absence of proper change control policies and procedures could result in unauthorized changes to production data.

6. *User Access Provisioning and Monitoring*

- The absence of adherence to the standard policy for granting and documenting modification to user access in the NJSPIRIT application may result in improper access by unauthorized users.
- Without periodically reviewing user access to the NJSPIRIT application and supporting infrastructure, there is a risk of improper or unauthorized user access.

Recommendation

1. *NJSPIRIT Password Rules*

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

2. *Formal Testing and Sign-Off Process for Database Changes*

- We recommend that appropriate management identified change control procedures are followed and evidence of approval for infrastructure changes be properly documented and maintained.

3. *Disaster Recovery Test*

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

4. *Sensitive Access and Segregation of Duties*

- We recommend that only a limited number of management identified individuals with responsibility to maintain rates are granted access to critical rate table information. We also recommend that this list of users is reviewed and monitored on a regular basis.
- 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.

5. *Formal Sign-Off for Conversion of Fiscal Balances and Post-Go-Live Conversion Related Data Updates*

- We recommend that procedures are established to ensure fiscal balances are verified, approved and evidence of approval is documented and maintained during a conversion process.
- We recommend that procedures are established to ensure that all data cleansing incidents are documented and related approvals are documented and maintained.

6. *User Access Provisioning and Monitoring*

- We recommend that all user access modification requests related to the NJSPIRIT application are properly documented, approved and maintained.
- We recommend that a review of user access for the NJSPIRIT application and supporting infrastructure should be performed on a periodic basis.

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

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

Immunization Grants (93.268)

Centers for Disease Control and Prevention: Investigations and Technical Assistance (93.283)

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: 09-29 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:

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- *Program Complexity* – Programs with complex compliance requirements have a higher risk of non-compliance.
- *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 non-compliance 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 include hospitals, nursing homes, and other healthcare related entities.

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

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The subrecipients receive funding from various Federal programs that amounted to approximately \$173 million for the State fiscal year 2009. The four major programs audited at the Department of Health and Senior Services for the State fiscal year 2009 were Special Supplemental Nutrition Program for Women, Infants, and Children, Immunization Grants, Centers for Disease Control and Prevention – Investigations and Technical Assistance, and HIV Care Formula Grants. The total payments to subrecipients for these four programs were \$19,008,962, \$2,097,161, \$2,796,486 and \$31,353,301, respectively.

Cause

The Department does not properly update the GSA Monitoring System to reflect the findings noted in the subrecipients' audit reports.

Effect

Subrecipients may not be properly monitored to ensure compliance with federal OMB Circular A-133 requirements.

Recommendation

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

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 Labor and Workforce Development

Federal Agency: U.S. Department of Education

Finding: 09-30 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 thirty-four client service activity drawdowns selected for test work, the Department drew in excess of the ESUM expenditures in the amount of \$2,361. The total amount of drawdowns included in the sample was \$7,633,208. There are no questioned costs at June 30, 2009 as the cumulative amount drawn down for the program was less than the cumulative expenditures reported.

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A similar finding was included in the 2008 prior year single audit report as item 08-40.

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 complies with Federal regulations.

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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Vocational Rehabilitation Cluster (84.126, 84.390)

State Agency: Department of Labor and Workforce Development

Federal Agency: U.S. Department of Education

Finding: 09-31 Reporting

Criteria

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 non-construction projects and for construction projects when the FSR is required in lieu of the SF-271.

Condition

For one out of the six SF-269 reports selected for testwork, the program income included on the SF-269 for the quarter ended June 30, 2009 did not agree to supporting documentation provided by the Department. The program income included on the SF-269 totaled \$1,813,704 and the supporting documentation provided by the Department totaled \$1,830,764. The reported amount of program income included on the SF-269 was accurate for the quarter ended June 30, 2009.

Cause

The Department did not properly review the supporting documentation and the SF-269 report to ensure that the program income agreed between the report and supporting documentation.

Effect

Program income reported on the SF-269 reports may not be accurately stated based on supporting documentation.

Recommendation

We recommend that the Department strengthen review procedures to ensure that all amounts included within the SF-269 reports agree to supporting documentation.

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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Unemployment Insurance (17.225)

Unemployment Insurance, Recovery Act (17.225)

State Agency: Department of Labor and Workforce Development

Federal Agency: U.S. Department of Labor

Finding: 09-32 Reporting

Criteria

ETA 9130, Financial Report (OMB No. 1205-0461) - DOL requires financial reports to be cumulative by fiscal year of appropriation. All ETA grantees are required to submit quarterly financial reports for each grant award they receive. Reports are required to be prepared using the specific format and instructions for the applicable program(s); in this case, Employment Service and Unemployment Insurance Programs. Reports are due 45 days after the end of the reporting quarter. Additional information can be accessed on the Internet at <http://www.doleta.gov/grants/> and scroll down to the section on Financial Status Reporting.

Condition

For one out of the nineteen ETA 9130 reports selected for testwork, the total Federal expenditures included on the ETA 9130 for the quarter ended June 30, 2009 did not agree to the supporting documentation provided by the Department. The Federal expenditures included on the ETA 9130 report totaled \$85,327,969 and the supporting documentation provided by the Department totaled \$85,180,502. The quarterly ETA 9130 reports Federal expenditures on a year-to-date basis. Therefore, the amount of Federal expenditures on the ETA 9130 report for the quarter ended September 30, 2009 self-corrected the error.

Cause

The Department did not properly review the ETA 9130 report for the quarter ended June 30, 2009 to ensure that the Federal expenditures reported agreed to the underlying supporting documentation.

Effect

The expenditures reported on the quarterly ETA 9130 may not be accurately stated based on supporting documentation.

Recommendation

We recommend that the Department strengthen review procedures to ensure that the amounts included on the quarterly ETA 9130 reports agree to supporting documentation.

Related Noncompliance

Not applicable as this is an internal control finding.

Questioned Cost

None

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See management's corrective action plan.

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WIA Cluster (17.258, 17.259, 17.260)

State Agency: Department of Labor and Workforce Development

Federal Agency: U.S. Department of Labor

Finding: 09-33 Subrecipient Monitoring

Criteria

1) *Recipients and Subrecipients*

- a) Each recipient and subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors in order to determine whether or not there is compliance with provisions of the Act and applicable laws and regulations and provide technical assistance as necessary and appropriate (20 CFR section 667.400(c)).
- b) Commercial organizations which are subrecipients under WIA title I and which expend more than the minimum level specified in OMB Circular A-133 must have either an organization-wide audit conducted in accordance with OMB Circular A-133 or a program specific financial and compliance audit (20 CFR section 667.200(b)(2)(ii)).

2) *States*

- a) Each State must have a monitoring system which:
 - (1) Provides for annual on-site monitoring reviews of local areas' compliance with DOL uniform administrative requirements, as required by WIA section 184(a)(4);
 - (2) Ensures that established policies to achieve program quality and outcomes meet the Act's objectives, including policies relating to the provision of services by One-Stop Centers, eligible providers of training services, and eligible providers of youth activities;
 - (3) Enables the Governor to determine if subrecipients and contractors are in substantial compliance with WIA requirements;
 - (4) Enables the Governor to determine whether a local plan will be disapproved for failure to make acceptable progress in addressing deficiencies; and
 - (5) Enables the Governor to ensure compliance with WIA nondiscrimination and equal opportunity requirements (20 CFR section 667.410(b)).
- b) Each State must conduct an annual on-site monitoring review of each local area's compliance with DOL uniform administrative requirements, including the appropriate administrative requirements and cost principles for subrecipients and other entities receiving WIA funds. The State must require that prompt corrective action be taken if any substantial violations are identified and must impose the sanctions provided in WIA section 184(b) and (c) if a subrecipient fails to take required corrective action. The State may issue additional requirements and instructions to subrecipients on monitoring activities (20 CFR section 667.410(b)).

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Condition

For one of five subrecipients selected for testwork, the subrecipient did not meet the earmarking requirement to properly allocate 30% or more of their funds received by the Department to out-of school youth activities. The Department communicates instances of noncompliance to subrecipients as part of the Department's fiscal review and requires the subrecipients to submit a corrective action plan to address such instances of noncompliance. The Department did not identify that the subrecipient was not in compliance with earmarking. The corrective action plan submitted by the subrecipient did not show evidence that such an instance of noncompliance was communicated by the Department, requiring corrective action. Based on our testwork, the State was in overall compliance with the 30% earmarking requirement for out-of-school youth activities for the year ended June 30, 2009.

The total amount passed through to the one subrecipient and total amounts passed through to subrecipients included in our sample were \$3,084,777 and \$12,765,257 respectively. Total amounts passed through to subrecipients for the WIA Cluster for the State fiscal year ended June 30, 2009 totaled \$51,033,930.

Cause

The Department does not have adequate processes and procedures in place to ensure that instances of noncompliance are properly communicated to subrecipients.

Effect

The State did not properly monitor its subrecipients during the State fiscal year 2009.

Recommendation

We recommend that State implement procedures to ensure that instances of noncompliance are clearly communicated to subrecipients and that a corrective action plan by the subrecipients addresses all instances of noncompliance noted during fiscal reviews.

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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Highway Planning and Construction Cluster (20.205, 20.219)

State Agency: Department of Transportation

Federal Agency: U.S. Department of Transportation

Finding: 09-34 Davis-Bacon Act

Criteria

When required by the Davis-Bacon Act, the Department of Labor's (DOL) governmentwide implementation of the Davis-Bacon Act, 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)).

Non-federal 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

For one out of thirty projects selected for testwork we noted that the weekly certifications required to be submitted by the contractor was incomplete. The signed certification was submitted by the contractor; however, the contractor did not identify the method of fringe benefit payment (i.e. fringe benefits are paid to approved plans, funds, or programs; or fringe benefits are paid in cash). The payment to the contractor for this project was \$907,042.

For thirteen out of thirty projects selected, wage rate inspections were not performed on a monthly basis in accordance with State policy. The payments to contractors for the thirteen projects were \$86,322,307.

For one out of thirty projects selected, the required payroll summaries were not submitted on a monthly basis. The payment to the contractor for this project was \$19,638,898. The total payments to contractors included in our sample were \$228,679,254.

Additionally, when examining a sample of employees listed in the certifications, we noted that one out of thirty employees selected was not paid the prevailing fringe benefit rate. This employee was paid \$971.

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Another one out of the thirty did not certify whether benefits were paid to an eligible program or in cash to the employee, and as such, we could not determine if the prevailing wage rate was in fact paid. This employee was paid \$98. The total payments to employees included in our sample were \$34,837.

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 always being followed. This is primarily 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

There is no assurance that 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 take steps 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

View of the 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: 09-35 Subrecipient Monitoring

Criteria

State DOTs are responsible for determining that subrecipients of Federal-aid highway funds have adequate project delivery systems for projects approved under 23 USC. They also are required to determine whether subrecipients have sufficient accounting controls to properly manage such Federal-aid funds (23 USC 106(g)(4)(A)).

Condition

Based upon a review of Management's Corrective Action Plan prepared as a result of a Federal Financial Integrity Review and Evaluation (FIRE) audit, dated October 15, 2008, the Department was to have in place by April 15, 2009, a sampling program for projects to verify that the appropriate supporting documentation was maintained by subrecipients. As of June 30, 2009, the corrective action has not been implemented as no projects have been sampled. The total amounts passed to subrecipients for the fiscal year ended June 30, 2009 was approximately \$46 million.

Cause

The Department did not implement a sampling program to verify that subrecipients are maintaining the documentation to support that their expenditures are in compliance with Federal Regulations.

Effect

Subrecipients may not be administering the Federal award in compliance with laws, regulations, and the provisions of contracts and grant agreements.

Recommendation

We recommend that the Department implement the corrective action plan to ensure compliance with Federal requirements.

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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State Fiscal Stabilization Fund – Government Services, Recovery Act (84.397)

State Agency: Department of Corrections

Federal Agency: U.S. Department of Education

Finding: 09-36 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Criteria

Activities Allowed or Unallowed

Allowable Activities - Government Services

- a. The Governor shall use Government Services funds for public safety and other government services, which may include assistance for elementary and secondary education and public IHEs. The Governor may also use Government Services funds for modernization, renovation, or repair of public school facilities and IHE facilities, including modernization, renovation, and repairs that are consistent with a recognized green building rating system, subject to the requirements in ARRA. Although ED encourages that any modernization, renovation or repair is consistent with a recognized green building rating system, this is not a requirement. Governors are also permitted to use part of their Government Services funds to support administrative costs associated with implementing ARRA, including costs related to monitoring subgrantees and complying with the ARRA reporting requirements (Section 14002(b) of ARRA).
- b. Unlike the Education Stabilization Fund program, ARRA does not require Governors to use State funding formulae when awarding funds to LEAs, and they do not have to allocate Government Services funds proportionally with an LEA's share of funding under Part A of Title I of the ESEA. Government Services funds may be allocated to any entity for the broad range of public safety and other government services activities, including assistance to elementary and secondary education and public IHEs, and for modernization, renovation, or repair of public school facilities and IHEs' facilities.

The scope of allowable activities under the Government Services program is broad, and is not limited to modernization, renovation, or repair of public school facilities or IHEs. Subject to limitations in Section 14004(c) of ARRA (see paragraph 6.c below), Governors are permitted to use Government Services funds for construction and infrastructure support.

When providing funds to IHEs, the Governor cannot consider the type or mission of the institution, and must consider any IHE (as defined in section 101 of the Higher Education Act (HEA) of 1965 (20 USC 1001) for funding for modernization, renovation, and repairs within that State, as long as that institution continues to meet the eligibility requirements in the programs under title IV of the HEA (Section 14002(b) of ARRA).

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Allowable Activities - Education Stabilization Fund and Government Services

Upon prior approval from the Secretary of ED, the State or LEA that receives SFSF funds may treat any portion of such funds that is used for elementary, secondary, or postsecondary education as non-Federal funds for the purpose of any requirement to maintain fiscal effort under any other program, including Part C of IDEA, administered by the Secretary (Section 14012(d) of ARRA).

Unallowable Activities - Education Stabilization Fund and Government Services

- a. SFSF funds cannot be used to provide financial assistance to students to attend private elementary or secondary schools, unless the funds are used to provide special education related services to children with disabilities as authorized by the IDEA (Section 14011 of ARRA).
- b. SFSF funds cannot be used to supplement or restore "rainy day funds," as transferring SFSF funds to a rainy day fund does not constitute an obligation under 34 CFR section 76.707.
- c. No entity may use SFSF funds for:
 - 1) Maintenance of systems, equipment, or facilities;
 - 2) Modernization, renovation, or repair of stadiums or other facilities primarily used for athletic contests or exhibitions or other public events for which admission is charged to the general public; or
 - 3) Modernization, renovation, or repair of facilities used for sectarian instruction or religious worship, or in which a substantial portion of the functions of the facilities are subsumed in a religious mission (Section 14004(c) of ARRA).
- d. LEAs may not use SFSF funds for:
 - 1) Payment of maintenance costs;
 - 2) Stadiums or other facilities primarily used for athletic contests or exhibitions or other events for which admission is charged to the general public;
 - 3) Purchases or upgrades of vehicles;
 - 4) Improvement of stand-alone facilities whose purpose is not the education of children, including central office administration or operations or logistical support facilities; or School modernization, renovation, or repair of that is inconsistent with State law (Section 14003(b) and (c) of ARRA).
- e. IHEs may not use SFSF funds for increasing their endowments (Section 14004(b) of ARRA).

Unallowable Activities Applicable to Government Services

Government Services funds cannot be used to pay down past debt. Government Services funds must be used for public safety and other government services, precluding the use of Government Services funds to pay down past debt (Section 14002(b)(1) of ARRA).

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Allowable Costs/Cost Principles

The basic guidelines affecting allowability of costs are identified in OMB Circular A-87 (A-87), Attachment A, Section C. Costs 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, Section C paragraph 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, Section C paragraph 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, Section C paragraph 4 for additional information on applicable credits.)
- j. Be adequately documented.

Condition

The State of New Jersey, Department of Corrections (the Department), employs individuals for two position categories: civilian and custody. For civilian positions, the Department's policy is that a supervisor must review and sign off on their respective units' timesheets. For custody positions, the Department's policy requires lieutenants to take a roll call on a daily basis to track hours worked.

Of thirty timesheets selected for testwork, there was no evidence of supervisory review and sign off of three civilian timesheets. The personal services expenditures associated with these timesheets were allowable under the above requirements.

Cause

There is a lack of effective internal control requiring signed documentation of personal services transactions.

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Effect

Personal services expenditures may not be appropriately reviewed and approved.

Recommendation

We recommend that the Department strengthen internal controls over the process for proper review and authorization of personal services expenditures.

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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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: 09-37 Reporting

Criteria

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). 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 reporting of 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 of available documentation. The Federal awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of the prescribed formats.

Condition

For one of the thirty SF-270 reports selected for testwork, the amount requested on the SF-270 report for reimbursement did not agree to the underlying supporting documentation. The amount reported on the SF-270 report for the period ending July 31, 2009 was \$181,151. The supporting documentation totaled \$182,151. The total amount of SF-270 reports included in our sample was \$2,103,862.

Cause

The Federal Account Manager within the Fiscal Division prepares a SF-270 report. This report contains amounts expended for the prior month based upon actual expenditures per the New Jersey Comprehensive Financial System. The SF-270 is then submitted for review and approval by the federal fiscal analyst within the 177th Fighter Wing located at Atlantic City. The fiscal analyst in turn does not submit the SF-270 as submitted by the Fiscal Division, but submits to the Federal Government a request for reimbursement based only upon internal calculations; not upon actual prior month expenditures incurred per the New Jersey Comprehensive Financial System. The SF-270 report was not properly reviewed.

Effect

The amounts reported to the Federal Government by the 177th Fighter Wing administrative office are not complete and accurate.

Recommendation

We recommend that all reimbursement requests be prepared based on actual expenditures from the State accounting system and the SF-270 reports are reviewed prior to submission.

Related Noncompliance

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

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Questioned Costs

None

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)

State Agency: Department of Military and Veterans Affairs

Federal Agency: U.S. Department of Defense

Finding: 09-38 Davis-Bacon Act and Procurement

Criteria

Davis-Bacon Act

When required by the Davis-Bacon Act, the Department of Labor's (DOL) governmentwide implementation of the Davis-Bacon Act, 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)).

Non-federal 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).

Procurement

States, and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Local governments and Indian tribal governments which are not subrecipients of States will use their own procurement procedures provided that they conform to applicable Federal law and regulations and standards identified in the A-102 Common Rule.

Institutions of higher education, hospitals, and other non-profit organizations shall use procurement procedures that conform to applicable Federal law and regulations and standards identified in OMB Circular A-110.

All non-Federal entities shall follow Federal laws and implementing regulations applicable to procurements, as noted in Federal agency implementation of the A-102 Common Rule and OMB Circular A-110.

Condition

For one of twenty-five contracts selected for testwork, the Department could not find the contractor's file, and therefore we were unable to test compliance with the above requirements. The total payment to this contractor was \$37,375 for fiscal year 2009 and is included in questioned costs below.

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For thirteen of twenty-five contracts selected for testwork, the contractor did not provide the certified payroll to the Department to support that the contractor paid the appropriate prevailing wage rate to their employees. Total payments to the thirteen contractors were \$5,041,558 and are included in questioned costs below.

For five of twenty-five contracts selected for testwork, the Department did not have approved change orders. Total payments to the five contractors for change orders was \$485,181, of which \$403,780 (not previously included above) are included in questioned costs below.

The total payments to the contractors during fiscal year 2009 included in our sample was \$58,410,129.

Cause

Files are maintained in various locations until the project is closed. The Department does not follow up with contractors to obtain the certified payroll. The position responsible for approving change orders was vacant.

Effect

Amounts paid to contractors cannot be supported, may be inaccurate and lack evidence of approval.

Recommendation

We recommend that the Department implement procedures to ensure that contractor files are tracked and filed appropriately and that contractors submit certified payroll prior to receiving a payment. Additionally, we recommend that the Department implement procedures to ensure that change orders are properly approved.

Related Noncompliance

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

Questioned Costs

\$5,482,713

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)

State Agency: Department of Military and Veterans Affairs

Federal Agency: U.S. Department of Defense

Finding: 09-39 Reporting

Criteria

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.

State, and governmental sub recipients of States, shall maintain all accounting records utilized to prepare financial reports. Amounts included in financial reports should be correctly reported and should be accurately reflected.

Condition

The Office of Management and Budget, NJ Department of Treasury generates the Schedule of Federal Awards (SEFA) from the State's underlying financial records on the central accounting system, New Jersey Comprehensive Financial System (NJCFS). The Department of Military and Veterans Affairs prepares the Federal financial reporting form, Request for Advance or Reimbursement (SF-270) for the National Guard Military Operations and Maintenance programs from NJCFS. The Department of Military and Veterans Affairs does not reconcile the amounts reported on the SF-270 reports to the amounts reported on the SEFA.

Cause

The Department does not have proper procedures in place to allow reconciliation of expenditures charged on the SF-270 reports to the amounts reported on the SEFA.

Effect

The expenditures reported on the SF-270 reports may not be supported by the State's underlying financial records and may be inappropriately charged to the program.

Recommendation

We recommend that the Department implement procedures to routinely reconcile the expenditures reported on all SF-270 reports to the State's underlying financial records maintained on the State's central accounting system.

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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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Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Help America Vote Act Requirements Payments (90.401)

State Agency: Department of State

Federal Agency: U.S. Election Assistance Commission

Finding: 09-40 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 non-compliance.
- *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.

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- *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 non-compliance 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 eleven of eleven subrecipients selected for testwork, we noted the Department did not communicate the award identification information (e.g. CFDA Title and number and/or name of Federal agency) to the subrecipients.

A similar finding was included in the 2008, 2007, and 2006 prior year single audit reports as items 08-21, 07-38, and 06-36, respectively.

Cause

The Federal award identification information is not communicated in the correspondence with the subrecipients.

Effect

Inadequate communication of program requirements could result in noncompliance of Federal requirements at the subrecipient level.

Recommendation

We recommend that the Department implement procedures to communicate to its subrecipients the Federal award information (e.g. CFDA Title and number and name of Federal agency) and applicable compliance requirements.

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 Responsible Official

See management's corrective action plan.

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Help America Vote Act Requirements Payments (90.401)

State Agency: Department of State

Federal Agency: U.S. Election Assistance Commission

Finding: 09-41 Level of Effort

Criteria

Section 254(a)(7) of the Help America Vote Act of 2002 requires that the State Plan explain “How the State, in using the requirements payment, will maintain the expenditures of the State for activities funded by the payment at a level that is not less than the level of such expenditures maintained by the State for the fiscal year ending prior to November 2000.”

Section Seven of the New Jersey State Plan filed with the Election Assistance Commission states that in order to satisfy the requirements in Section 254(a)(7) of the Help America Vote Act of 2002, “all counties and the State must maintain at a minimum the level of operating expenses for elections that was incurred in fiscal year 2000, in addition to any federal funding received.”

Condition

There is no ongoing process in place at the Department to monitor compliance with the level of effort requirement at the State level; however, after audit inquiry, documentation was provided to support that the State level of effort was met.

There is no ongoing process in place at the Department to monitor the counties compliance with the level of effort requirement.

Cause

The Department of State was not aware of this requirement.

Effect

The State and counties may not be maintaining their expenditures for general and primary elections at a level that is required by the Help America Vote Act of 2002.

Recommendation

We recommend that the Department implement ongoing monitoring procedures to ensure that the State and the counties are in compliance with the level of effort requirements.

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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See management's corrective action plan.

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Special Education Cluster (84.027, 84.173)

Career and Technical Education – Basic Grants to States (84.048)

Improving Teacher Quality State Grants (84.367)

State Agency: Department of Education

Federal Agency: U.S. Department of Education

Finding: 09-42 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 non-compliance.
- *Percentage Passed Through* – The larger the percentage of program awards passed through the greater the need for subrecipient monitoring.

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- *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 non-compliance 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 2009, 314 subrecipients were required to submit OMB Circular A-133 audit reports to the Office. Of the 314 audit reports required to be submitted, the Office did not complete any desk reviews.

Additionally, for one of four audit reports that were not received before the required submission deadline, the Office did not perform any follow-up procedures to ensure the receipt of subrecipient's Federal OMB Circular A-133 audit report.

The subrecipients receive funding from various Federal programs that amounted to approximately \$698 million for the State fiscal year 2009. The three major programs audited at the Department of Education for the State fiscal year 2009 were Special Education Cluster, Career and Technical Education – Basic Grants to

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States, and Improving Teacher Quality State Grants. The total payments to subrecipients for these three programs were \$194,979,822, \$10,839,978 and \$36,398,515, respectively.

A similar finding was included in the 2008 prior year single audit report as item 08-46.

Cause

The Office did not complete desk reviews of subrecipients' OMB Circular A-133 audit reports and did not perform procedures to follow-up on subrecipients' OMB Circular A-133 reports that were not submitted by the required deadline to have a desk review performed.

Effect

Subrecipients may not be properly monitored to ensure compliance with federal OMB Circular A-133 requirements.

Recommendation

We recommend that the Office ensure that OMB Circular A-133 desk reviews are completed in a timely manner and perform appropriate follow-up procedures for subrecipient OMB Circular A-133 audit reports that are not submitted for desk review during the required submission timeframe.

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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Career and Technical Education – Basic Grants to States (84.048)

State Agency: Department of Education

Federal Agency: U.S. Department of Education

Finding: 09-43 Reporting

Criteria

Special Reporting

Annual Accountability Report (Part D) for the Consolidated Annual Report for the Carl D. Perkins Career and Technical Education Act of 2006 (CAR) (OMB No. 1830-0569). A sample of cells on the CAR should be tested (in a similar manner that is done for a financial report) to ensure that the State has data that supports the numbers in the report. The measures and levels are defined in the Final Agreed Upon Performance Levels form that is incorporated in a State plan and attached to the grant award.

- a. *States* – Each State must annually report to the Secretary the progress of the State in achieving the State-adjusted levels of performance on the core indicators of performance, including the levels of performance achieved by the special population categories described in Section 3(29) of Perkins IV and other student categories described in Section 1111(h)(1)(C)(i) of ESEA (20 USC 6311(h)(1)(C)(i)) (Section 113(c) of Perkins IV (20 USC 2323(c))). This report must be provided as part of each State's December 31 CAR submission.

The Perkins IV core indicators on which States must report aggregate data are:

Secondary Level:

- Attainment of academic skills - reading/language arts
- Attainment of academic skills - mathematics
- Technical skill attainment
- School completion
- Student graduation rates
- Placement
- Nontraditional participation
- Nontraditional completion

Postsecondary Level:

- Technical skill attainment
- Credential, certificate, degree
- Student retention or transfer
- Student placement
- Nontraditional participation
- Nontraditional completion

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States are also required to report disaggregated data on the performance of students by gender, race, ethnicity, migrant status, and the following special population categories described in Section 3(29) of Perkins IV (20 USC 2302 (29))(Section 113(c)(2)(A) of Perkins IV (20 USC 2323(c)(2)(A))):

- Individuals with disabilities
- Individuals from economically disadvantaged families, including foster children
- Individuals preparing for non-traditional fields
- Single parents, including pregnant women
- displaced homemakers
- Individuals with limited English proficiency

Each State negotiates with ED adjusted performance levels (i.e. targets) for each core indicator for each program year (Sections 113(b)(3)(A)(iii) and (iv) of Perkins IV (20 USC 2323 (b)(3)(A)(iii) and (iv))). Each State's adjusted performance levels are contained in a "Final Agreed-Upon Performance Level (FAUPL) Form," which is incorporated by reference into the State plan and grant award (*OMB Number 1830-0029*) (Sections 113(b)(3)(A)(iii) and (v) of Perkins IV (20 USC 2323(b)(3)(A)(iii) and (v))).

A State that retains all, or a portion, of its tech prep grant (Title II) for purposes authorized under Title II of Perkins IV must report its tech prep students as a disaggregated population for each of the section 113 indicators in its *CAR* (Sections 113(c) and 203(e) of Perkins IV (20 USC 2323(c) and 2373(e))).

Each State must review the accountability data submitted by its subrecipients and, in the State's annual *CAR* submission, (1) indicate the total number of subrecipients that failed to meet at least 90 percent of an agreed upon local adjusted level of performance and that will be required to implement a local program improvement plan for the succeeding program year, and (2) note trends, if any, in the performance of these subrecipients (i.e., core indicators that were most commonly missed, including those for which less than 90 percent was commonly achieved; disaggregated categories of students for whom there were disparities or gaps in performance compared to all students) (Section 113(c) of Perkins IV (20 USC 2323(c))).

Condition

Our testwork noted the Department's underlying documentation maintained for the *CAR* report for the period July 1, 2008 to June 30, 2009 was not in agreement with the report submitted to the Federal Government. Discrepancies were noted in the number of students reported in the following core indicators: Technical Skill Attainment, Student Graduation Rates, Student Placement and Nontraditional Completion.

Cause

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

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Effect

The Department did not report accurate performance indicators to the Federal Government for the period July 1, 2008 to June 30, 2009.

Recommendation

We recommend that the Department implement procedures to ensure the CAR performance report is properly completed, supported by accurate documentation and thoroughly reviewed by a supervisor prior to its submission.

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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Career and Technical Education – Basic Grants to States (84.048)

State Agency: Department of Education

Federal Agency: U.S. Department of Education

Finding: 09-44 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 non-compliance.
- *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.

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- *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 non-compliance 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.

Agreed-Upon Procedures Engagements

A pass-through entity may arrange for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations. Since the pass-through entity determines the procedures to be used and compliance areas to be tested, these agreed-upon procedures engagements enable the pass-through entity to target the coverage to areas of greatest risk. The costs of agreed-upon procedures engagements is an allowable cost to the pass-through entity if the agreed-upon procedures are performed for subrecipients below the A-133 threshold for audit (currently at \$500,000 for fiscal years ending after December 31, 2003) for the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, earmarking; and reporting (OMB Circular A-133 (§___.230(b)(2))).

Condition

The Department did not identify to its subrecipients the program's CFDA number. Additionally, there was no evidence that during-the-award monitoring of the program's subrecipients through reporting, site visits, regular contact, or other means had occurred during the fiscal year.

The amounts passed to subrecipients for the State fiscal year 2009 was \$10,839,978.

A similar finding was included in the 2008 prior year single audit report as item 08-42.

Cause

The Department does not have adequate policies and procedures in place to monitor its subrecipients compliance with Federal regulations.

Effect

The subrecipients may not be administering the Federal award in compliance with laws, regulations, and the provisions of contracts and grant agreements and achieving required performance goals.

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Recommendation

We recommend that the Department implement procedures to monitor its subrecipients in accordance with Federal requirements.

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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Career and Technical Education – Basic Grants to States (84.048)

State Agency: Department of Education

Federal Agency: U.S. Department of Education

Finding: 09-45 Suspension and Debarment

Criteria

Non-Federal 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. §__.220 of the governmentwide nonprocurement debarment and suspension common rule contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal 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 (§__.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>).

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 common rule published November 26, 2003, is substantially the same as that rule. Most of the Federal agencies have adopted this guidance and relocated their associated agency rules in Title 2 of the CFR as final rules. For any agency that has not completed its adoption of 2 CFR part 180, pending completion of that adoption, agency implementations of the common rule remain in effect. Appendix II includes the current CFR citations for all agencies. In either case, the applicable requirements are specified in the terms and conditions of award.

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 2009 was \$10,839,978.

A similar finding was included in the 2008 prior year single audit report as item 08-43.

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2009

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.

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

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, 2009

Special Education Cluster (84.027, 84.173)

State Agency: Department of Education

Federal Agency: U.S. Department of Education

Finding: 09-46 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 non-compliance.
- *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.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

- *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 non-compliance 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.

Agreed-Upon Procedures Engagements

A pass-through entity may arrange for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations. Since the pass-through entity determines the procedures to be used and compliance areas to be tested, these agreed-upon procedures engagements enable the pass-through entity to target the coverage to areas of greatest risk. The costs of agreed-upon procedures engagements is an allowable cost to the pass-through entity if the agreed-upon procedures are performed for subrecipients below the A-133 threshold for audit (currently at \$500,000 for fiscal years ending after December 31, 2003) for the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, earmarking; and reporting (OMB Circular A-133 (§___.230(b)(2))).

Condition

There was no evidence that during-the-award monitoring of the program's subrecipients through reporting, site visits, regular contact, or other means had occurred during the fiscal year.

The amounts passed to subrecipients for the State fiscal year 2009 was \$194,979,822.

A similar finding was included in the 2008 prior year single audit report as item 08-41.

Cause

The Department does not have adequate policies and procedures in place to monitor its subgrantees compliance with Federal regulations.

Effect

The subrecipients may not be administering the Federal award in compliance with laws, regulations, and the provisions of contracts and grant agreements and achieving required performance goals.

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2009

Recommendation

We recommend that the Department implement procedures to monitor its subrecipients in accordance with Federal requirements.

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

MANAGEMENT'S CORRECTIVE ACTION PLAN
(Unaudited)

STATE OF NEW JERSEY SINGLE AUDIT

FISCAL YEAR 2009



***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, 2009
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
09-1 08-1 07-42	<p>Response to Conditions:</p> <p>1. The Division concurs with this audit finding. We were actively reviewing cases for the first half of FFY 2008 (October 2007 – March 2008). Work on the second half (April 2008 – September 2008) will accelerate once we complete the FFY 2010 PERM cycle positive cases or increase the available resources.</p> <p>Corrective Action Plan: The Division is committed to completing all MEQC review cycles. The Division has made progress to and will continue to work to complete the MEQC reviews timely consistent with available resources and federal requirements.</p> <p>2: As MEQC cycles must operate and be reported to CMS in sequential order, the completion of these federal Fiscal Year (FFY) 2008 MEQC cycle positive cases are delinquent because completion of the FFY 2007 MEQC cycle positive cases was delayed. The FFY 2007 MEQC cycle was delayed because FFY 2007 PERM cycle cases had priority over MEQC requirements, per CMS.</p> <p>Corrective Action Plan: The Division is committed to completing all MEQC review cycles. The Division has made progress to and will continue to work to complete the MEQC reviews timely consistent with available resources and federal requirements.</p> <p>3. The Division concurs with this audit finding. However, the missing signature page in this particular eligibility review (11222) is not a procedure issue. This eligibility review is of a newborn who; on the review period date (11/1/2007), was 23 days old. The mother was Medicaid eligible (Program Status Code 490 - Pregnant Women) at the time of the child's birth. Both mother and child met the conditions for guaranteed Medicaid eligibility during the review period: Medicaid Communication 91-21, Expanded Eligibility for Newborns and Medicaid Communication 96-8, <u>Medicaid</u> Eligibility for HMO Newborns. No application is required, only formal notification of the child's birth. The certifying agency provided an electronic reproduction of the Food Stamp application, which is included in the BQC record. The Food Stamp application is acceptable per Medicaid Communication 05-05, NJ FamilyCare Enrollment Initiative Using Food Stamp Case File, and FAMIS data instead of a NJ FamilyCare Application to Determine a Child's Eligibility for NJ FamilyCare. The agency archives its hardcopy applications, but has a slow retrieval process.</p> <p>Corrective Action Plan: A copy of the original (Food Stamp) signature page was requested from the certifying agency and will be added to the BQC record. BQC Staff was reminded to include a copy of the signature page in the BQC record, for audit purposes.</p> <p>4. The Division concurs with this audit finding. The Supervising Program Support Specialist reviewed the case and wrote the approval date on the case cover sheet in the supervisor certification section. However, she did not fully complete the requirement by adding her initials next to the approval date. The KPMG auditor was advised that only the Supervising Program Support Specialist can approve the review findings for MEQC cases and the approval date, written by the Supervising Program Support Specialist, is evidence that she reviewed the case.</p> <p>Corrective Action Plan: BQC is satisfied that this finding does not represent a weakness in the controls used to ensure the integrity of the QC review process. The Supervising Program Support Specialist has been advised to initial and date all approved reviews, without</p>	<p>1. Ongoing 2. Ongoing 3. March 2010 4. March 2010 Joel TeBeest (609) 984-4460 Claude Singleton (609) 588-2958</p>

¹ Current and prior year finding number(s)

**STATE OF NEW JERSEY SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2009
VIEWS OF RESPONSIBLE OFFICIALS
AND CORRECTIVE ACTION PLANS FOR CURRENT YEAR FINDINGS**

	exception.	
SNAP Cluster (10.551, 10.561) Child Support Enforcement (93.563) Temporary Assistance for Needy Families (93.558) Foster Care—Title IV-E (93.658) Foster Care—Title IV-E, Recovery Act (93.658) Adoption Assistance (93.659) Adoption Assistance, Recovery Act (93.659) Medicaid Cluster (93.775, 93.777, 93.778) State Children's Insurance Program (93.767) State Agencies: Office of Information Technology Federal Agency: U.S. Department of Health and Human Services		
<i>Special Tests and Provisions</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-2 No finding in prior year	Due to staffing limitations within the Office of Information Technology's (OIT's) iMAC unit as well as prolonged sick leave, the size of the unit shrunk from three people to one person for the period of July 2009 through January 2010. Since there are now two people on board, the Biennial Security Review will be completed on June 30, 2010. The ADP Risk Analysis is awaiting the results of the Data Center Audit currently being performed by the Office of the State Auditor. Important aspects of the Risk Analysis rely on these findings. It is expected this report will be issued between June 30, 2010 and September 30, 2010. The results will be incorporated into the Risk Analysis approximately three months after the date the report is received, but no later than December 31, 2010.	December 2010 Kenneth Herbst (609) 633-9194
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>Special Tests and Provisions</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-3 No finding in prior year	The plan of correction follows: 1) Immediately coordinate with Assessment and Survey—on at least a quarterly basis—a report of the Long Term Care (LTC) facilities inspected and approved for recertification. Continue the receipt of the form denoting the recommendation for recertification. 2) Create and implement an Excel spreadsheet of Medicaid approved LTC facilities. This will include the date of the survey, the recertification recommendation, and Medicaid's recertification letter to the LTC facility. 3) On at least a quarterly basis, review the report noted in 1 in relation to the spreadsheet to verify the mailing of the Medicaid letter and its inclusion in the facility's file. 4) Notify Assessment and Survey of any discrepancy between #s 1 and 2 in writing or email, to ensure proper documentation of Medicaid recertification is completed on a timely basis.	1) March 2010 2) April 2010 3) June 2010 and ongoing quarterly basis. 4) June 2010 and ongoing quarterly basis. Joel TeBeest (609) 984-4460 Alison Gibson (609) 292-9900

¹ Current and prior year finding number(s)

**STATE OF NEW JERSEY SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2009
VIEWS OF RESPONSIBLE OFFICIALS
AND CORRECTIVE ACTION PLANS FOR CURRENT YEAR FINDINGS**

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
09-4 08-3 07-2	Response to Conditions: <ul style="list-style-type: none"> As of July 1, 2010, the review and processing of expenditure reports will be done on a web-based reporting, review and approval system. Agencies will be immediately notified via this system when reports are delinquent. Beginning July 1, 2010, the required due date for interim expenditure reports will be 30 days following the close of the reporting period and 120 days following the close of contract period for final reports. Contract Administrators are currently held accountable for ensuring that interim reports applicable to contracts within the 2010 fiscal year are received within 10 working days following the close of the period and final reports are received within 60 working days following the close of the contract. Advanced payments are automatically stopped if no verification of receipt of the expenditure report is generated by the Contract Administrator. Files are periodically monitored for such compliance. As of July 1, 2010, the review and processing of expenditure reports will be done on a web-based reporting, review and approval system. This system will alert both Contract Administrator and Contract Supervisor on the review status of all reports thereby ensuring processing within the 30-day period. Currently, Contract Administrators are held accountable for the 30-day processing time. Files will be periodically monitored for compliance. The prevention unit has implemented a tracking method in which all contracts are listed on a spreadsheet that indicates the due date for each Formal Site Visit. Program Officers utilize the form to indicate when they have conducted a formal site visit for the contracts they oversee. The spreadsheet is reviewed monthly by the prevention director to assure that all visits have been conducted in a timely manner. 	July 2010 Joel TeBeest (609) 984-4460
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>Suspension and Debarment</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-5 No finding in prior year	As of July 1, 2010, the review and processing of contract applications will be done on a web-based reporting, review and approval system. The system will not allow an incomplete or unsigned application to be approved. Applications will require verification that the applying agency is neither suspended nor debarred.	July 2010 Joel TeBeest (609) 984-4460

¹ Current and prior year finding number(s)

**STATE OF NEW JERSEY SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2009
VIEWS OF RESPONSIBLE OFFICIALS
AND CORRECTIVE ACTION PLANS FOR CURRENT YEAR FINDINGS**

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
09-6 08-7	By April 30, 2010, Cost Allocation Plans (CAP's) for the quarters ended March 31, 2009 and June 30, 2009 will be completed. 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 CAPs will be completed in a timely manner.	Quarterly CAPs: April 2010 Final implementation is contingent on repeal of hiring freeze. Joel TeBeest (609) 984-4460 Frank Scheick (973) 648-3126
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
09-7 08-2 07-5 06-1 05-7 04-18 03-7 02-6 01-6 00-30	The differences are a result of the limited ability of the existing ACSES program to provide the necessary detail of the financial information in order to reconcile the child support bank accounts on the OCSE 34A report. The Division is currently in the process of replacing the ACSES data system. Included in the redesign, is the systems requirement to maintain all information within the NJKiDS system in order to identify all collections and disbursements. As of June 30, 2009 (State Fiscal Year [SFY] 2009), the NJKiDS system was implemented in 19 counties. The remaining two counties were available as of September 1, 2009 (SFY 2010). It should be noted that, while the NJKiDS system is currently operational, it has not been officially certified by the federal government, as there are still outstanding projects that must be completed.	It is projected that NJKiDS will be certified by the federal government during State Fiscal Year 2011. Joel TeBeest (609) 984-4460 Kimberly Parady (609) 588-2037
Child Care Cluster (93.575, 93.596) 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
09-8 08-4 07-7	The findings of the KPMG audit indicate that, for one of the forty subrecipient monitoring files selected for test-work, the Division did not properly communicate findings noted in the subrecipient's monitoring report to the subrecipient, which would require the sub-recipient to submit an appropriate corrective action plan to the Division relating to the findings noted. The deficiency list was	April 2010 Joel TeBeest (609) 984-4460

¹ Current and prior year finding number(s)

**STATE OF NEW JERSEY SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2009
VIEWS OF RESPONSIBLE OFFICIALS
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	<p>inconsistent with the monitoring report. Child Care Office staff met with the auditors and explained that the Child Care Specialist made an error in preparing the list.</p> <p>Corrective Action Plan: Team Supervisors will more closely review the monitoring reports to ensure the deficiencies match the responses to the questions on the monitoring tool. If there are items noted that are inconsistent, the report will be sent back to the Specialist for further clarification and editing.</p> <p>The findings also indicate that in one of forty sub-recipient monitoring files selected for test work, the Division could not provide adequate documentation to support that a monitoring review had been performed during State Fiscal Year (SFY) 2009. The contract amount provided to this sub-recipient was \$181,308 for SFY 2009, of which a portion related to this program. The tracking document that is maintained by the Team Supervisor clearly indicates that the center was monitored on April 24, 2009 with a compliance finding, the folder containing the monitoring report was unable to be located. It is believed that the file was mistakenly filed with folders that were sent for archival.</p> <p>Corrective Action Plan: In order to ensure that monitoring reports are filed properly and monitoring folders are not misplaced or misfiled, Team Supervisors will conduct monthly spot checks of all contracts assigned to their teams effective April 1, 2010. The spot checks will focus on checking for monitoring reports to ensure they have been mailed and folders to ensure they are placed in the correct file cabinet so they can be located when needed.</p>	<p>Beverly Wellons (609) 588-7796</p>
<p>Child Care Cluster (93.575, 93.596) State Agency: Department of Human Services Federal Agency: U.S. Department of Health and Human Services</p> <p><i>Period of Availability</i></p>		
FINDING # ¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
<p>09-9 08-9</p>	<p>In accordance with the audit recommendation from the Fiscal Year (FY) 2008 audit finding (08-9), the Division initiated procedures (as of August 1, 2009) to ensure that all expenditures for Child Care matching funds are properly reconciled in a timely manner. The procedures are as follows: Once copies of the filed ACF-696 reports are received within the Federal Reconciliation Unit, the Federal Reconciliation liaison has the responsibility to:</p> <ul style="list-style-type: none"> ▪ Contact the Budget Office to determine the amount and timing of all final expenditure modification (EM) and other, related transactions. ▪ Monitor the progress of the processing of the adjusting documents. ▪ Inform the Manager, Accounting Operations & Technical Services, of issues and/or problems that may interfere with the timely processing of these transactions. 	<p>August 2009 Joel TeBeest (609) 984-4460 Thomas Mattaliano (609) 588-2056</p>

¹ Current and prior year finding number(s)

**STATE OF NEW JERSEY SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2009
VIEWS OF RESPONSIBLE OFFICIALS
AND CORRECTIVE ACTION PLANS FOR CURRENT YEAR FINDINGS**

SNAP Cluster (10.551, 10.561) Temporary Assistance for Needy Families (93.558) 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
09-10 08-44 07-8	1. Database Access/Monitoring of Database Access: <ul style="list-style-type: none"> There are three unique database IDs assigned to three different (human) resources (System Administrators). The “Audit All” functionality logs all access to the FAMIS data base areas. BULL clients have neither the authority nor ability to alter the BULL mainframe. BULL clients have neither the authority nor ability to alter the HAPS8 software limitation. (HAPS8 is BULL proprietary software.) 2. Formal Testing and Sign-Off Process for Operation System Changes: <ul style="list-style-type: none"> The Affinity Chief Technology Officer (CTO) approves patch implementation. Presently Change Controls procedurally documents patches. Logging patches is part of that process. A formalized policy for documenting is contained in Operations Circular #03-2009 <i>BULL Operating System Formal Change Process for System Upgrades and Corrections</i>. The above OIT policy documents operating system change procedures. The operating system patches are maintained by the Office of the Affinity CTO. BULL provided patches are for the Operating System only. 	1. Database Access/Monitoring of Database Access <ul style="list-style-type: none"> August 2009 Corrective action is unlikely due to BULL constraints. Corrective action is unlikely due to BULL constraints. 2. Formal Testing and Sign-Off Process for Operation System Changes September 2009 Kenneth Herbst (609) 633-9194
SNAP Cluster (10.551, 10.561) Temporary Assistance for Needy Families (93.558) State Agency: Department of Human 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
09-11 08-45 07-9	Sub-Recipient User Access Policies and Procedures: A user access policy and procedure document was developed by the Division of Family Development (Division) Office of Information Systems (OIS) and distributed to the sub-recipients on January 20, 2009 and February 19, 2010. The procedures will be updated as necessary and disseminated to the sub-recipients on an annual basis. Sub-Recipient User Access Monitoring: To facilitate a smooth transition, discussions related to security monitoring were held with the CWA Security Officers at the August 2009 DCU Coordinator’s meeting; the CWA Fiscal Officers at the quarterly meeting in September 2009 and the CWA Directors at their meeting in November 2009. The security audits are conducted by the Division’s Audit Liaison. These audits are scheduled to occur on a three-year rotational basis with approximately seven counties being monitored annually. During the audit, the Audit Liaison: <ul style="list-style-type: none"> obtains a list of add and delete requests from the county security officer and pull an appropriate sample for review; 	All required audits for State Fiscal Year 2010 completed by March 2010. Joel TeBeest (609) 984-4460 Thomas Mattaliano (609) 588-2056

¹ Current and prior year finding number(s)

**STATE OF NEW JERSEY SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2009
VIEWS OF RESPONSIBLE OFFICIALS
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	<ul style="list-style-type: none">▪ verifies that the individuals identified in the sample delete requests are no longer on the FAMIS system;▪ verifies that the individuals identified in the sample add requests:<ul style="list-style-type: none">○ were actual, current employees at the time they were added to the system;○ only have access to the systems they require in accordance with their job function. <p>As of April 1, 2010, the Division has completed the required seven (7) monitoring audits for SFY 2010. The county agencies and dates of the audits were as follows:</p> <table><tr><td>Hunterdon</td><td>December 1, 2009</td></tr><tr><td>Burlington</td><td>December 3, 2009</td></tr><tr><td>Mercer</td><td>January 26, 2010</td></tr><tr><td>Monmouth</td><td>February 9, 2010</td></tr><tr><td>Warren</td><td>February 18, 2010</td></tr><tr><td>Ocean</td><td>March 8, 2010</td></tr><tr><td>Bergen</td><td>March 23, 2010</td></tr></table>	Hunterdon	December 1, 2009	Burlington	December 3, 2009	Mercer	January 26, 2010	Monmouth	February 9, 2010	Warren	February 18, 2010	Ocean	March 8, 2010	Bergen	March 23, 2010	
Hunterdon	December 1, 2009															
Burlington	December 3, 2009															
Mercer	January 26, 2010															
Monmouth	February 9, 2010															
Warren	February 18, 2010															
Ocean	March 8, 2010															
Bergen	March 23, 2010															
Edward Byrne Memorial Justice Assistance Grant (16.738) Medicaid Cluster (93.775, 93.777, 93.778) State Agency: Department of Treasury, Office of Management and Budget Federal Agencies: U.S. Department of Justice 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														
09-12 No finding in prior year	As noted in the finding, the fringe benefit rate development is a manual process. At this time, there is a managerial review in place to review the calculation. This will continue to prevent errors in future submissions. The error noted was in a projected rate, which will be adjusted to actual in the next fringe rate calculation in State Fiscal Year (SFY) 2011. Because of this and the fact that this finding is an under recovery of fringe benefits there is no recalculation needed to address the negotiated rate for the SFY 2009 audit period.	April 2010 Anne Fletcher (609) 984-8261														
Edward Byrne Memorial Justice Assistance Grant (16.738) State Agency: Department of Law and Public Safety Federal Agency: U.S. Department of Justice																
<i>Cash Management</i>																
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON														
09-13 08-12	A similar finding from the Fiscal Year 2008 audit resulted in the implementation of a revised procedure to disburse funds to subrecipients primarily on an expenditure basis. This corrective action became effective in April 2009, and continues to be enforced.	April 2009 Ronald W. Kraemer Sr. (609) 984-4983														

¹ Current and prior year finding number(s)

**STATE OF NEW JERSEY SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2009
VIEWS OF RESPONSIBLE OFFICIALS
AND CORRECTIVE ACTION PLANS FOR CURRENT YEAR FINDINGS**

Homeland Security Cluster (97.067) State Agency: Department of Law and Public Safety Federal Agency: U.S. Department of Homeland Security		
<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
09-14 08-18 07-33 06-18 05-31 04-26 03-38 02-34 01-27 00-09	The Office of Homeland Security and Preparedness (OHSP) has implemented an internal control system to ensure Grant Activity Certifications will be provided for all federally funded positions. The OHSP will not process internal salary reimbursements for the Grants Program Management Bureau staff unless certification documentation consistent with OMB Circular A-87 is on file. The OHSP will now require State agencies to provide the first bi-annual certification documentation prior to the transfer of federal funding to their respective appropriation accounts. This will ensure all funding recipients comply with Circular A-87.	Immediate Ronald W. Kraemer Sr. (609) 984-4983
Homeland Security Cluster (97.067) State Agency: Department of Law and Public Safety Federal Agency: U.S. Department of Homeland Security		
<i>Equipment and Real Property Management</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-15 08-17 07-32 06-22 05-30 04-27 03-39 02-36	This finding pertained to one transaction for which the Department/Office of Attorney General (OAG) processed a purchase order under an incorrect object code. It should be noted that although coded incorrectly, the items were still allowable. The purchase order was processed under Object Code 7710 (IT Equipment) but it should have also included 3410 (IT Services) and 3430 (Software). Just over half the purchase order was IT Equipment and the other half should have been for IT Services and Software. The Department/OAG will work on reviewing all purchases to make sure the correct object codes are applied. The Department/OAG requires review by both senior management on the purchasing side and fiscal side review that items coded for purchase, match how it is classified before purchase orders are approved and processed.	Ongoing Ronald W. Kraemer Sr. (609) 984-4983
Homeland Security Cluster (97.067) State Agency: Department of Law and Public Safety Federal Agency: U.S. Department of Homeland Security		
<i>Cash Management, Period of Availability, and Subrecipient Monitoring</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-16 No finding	This finding pertained to one transaction for which the Department/Office of Attorney General (OAG) could not produce supporting documentation for a subrecipient payment. The Department/OAG has established reasonable procedures to ensure receipt of reports	Ongoing Ronald W. Kraemer Sr.

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in prior year	from subrecipients. These reports require supporting documentation for all procurements approved by OHS&P. The Department/OAG requires executive level State agency subrecipients and non-governmental organizations to follow standard State procurement policies for reimbursements. Once these steps have been followed and documents are verified, only then can reimbursements happen. After reimbursements have been made, the documents should be filed in a location that is easy to access and supply for later supporting documentation.	(609) 984-4983
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
09-17 08-24	The Division of Food and Nutrition (Division) has submitted numerous requests and justifications to fill the vacant auditor position since May 2006. The requests to fill the position have been denied over and over again. Since the Division has not been able to fill the vacant auditor position, it has engaged the services of two temporary employees last year. One person started work in June 2009 and the other began working in mid-August 2009. The review of school district audits for Fiscal Years (FYs) 2007/2008 began immediately upon their employment. This review encompassed the evaluation of revenue and expenditures of school food service accounts to monitor the non-profit status as required by regulation. We are currently reviewing FY 2009 audits. The Division has completed the review of FYs 2007 and 2008 audits and is now following up on incomplete audits and identified findings, and is proceeding with collection of identified over claims.	July 2009 Emma Davis-Kovacs (609) 984-0692
Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559) State Agency: Department of Agriculture Federal Agency: U.S. Department of Agriculture <i>Subrecipient Monitoring</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-18 08-47	Effective July 1, 2009, the Division of Food and Nutrition (Division) has instituted policies and procedures that will track and follow-up on submission of subrecipient OMB Circular A-133 audit reports utilizing the services of the two temporary employees referenced above in the corrective action plan for finding 09-17. The Division Director will coordinate with the fiscal coordinators in both bureaus within the Division to ensure compliance on an annual basis. OMB "Status Report of Grantee Single Audit Reports Late—by Cognizant Department" as of December 12, 2009 currently identifies one delinquent organization.	July 2009 Emma Davis-Kovacs (609) 984-0692

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Community Services Block Grant (93.569) 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
09-19 No finding in prior year	Department controls over the reconciliation process using the Department's underlying financial records (SAGE & NJCFS) were enhanced and strengthened during State Fiscal Years (SFYs) 2009 and 2010 as evidenced by the lack of repeat findings being noted for reconciliation requirements under the current audit period to the SEFA. As a result of these enhancements the CSBG, LIHEAP, and DOE Weatherization programs now have an accurate mechanism to ensure that federal FSR reports are prepared based upon reconciled totals and that they agree to this support documentation prior to being approved and submitted to federal funding agencies. FSRs prepared prior to these process enhancements and identified by KPMG with errors under the FY 2009 NJ Single Audit for CSBG have been amended and resubmitted to US-HHS to correct the errors noted.	Implemented State Fiscal Year 2010 Brian Phillips (609) 984-2698
Community Services Block Grant (93.569) State Agency: Department of Community Affairs 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
09-20 08-29 07-10 06-44 05-57	<p>Actions taken:</p> <ol style="list-style-type: none"> 1. Policy Bulletin (PB) #09-02 issued June 24, 2009 amends PB #08-02 issued September 24, 2008 (established the criteria for Public Boards), to allow 90 days to fill vacant positions in public agencies. 2. PB #09-03 issued June 24, 2009 amends PB #08-03 issued September 25, 2008 (established the criteria for private Board), to allow 90 days to fill vacant positions in private agencies. 3. Have baseline on all agencies Boards March 2010. Informing all agencies out of compliance they have 90 days to become compliant. Subsequent review during late Fiscal Year (FY) 2010 of Board Composition for the 11 entities examined detail that 4 of these subgrantees are now in compliance with the tripartite requirements. <p>Actions in process:</p> <ol style="list-style-type: none"> 1. Prepared bid packet for assessment of agencies & provision of technical assistance—currently at State Treasurer's office. Expect to seek bids by fall 2010. 2. NJ Community Action Association received grant to provide Board training. DCA provided a listing of finding related to Boards to them. These issues including tripartite compliance will be part of their training. 3. Beginning in FY 2010, the CSBG program will ensure that supporting documentation is generated from SAGE regarding subgrantee board composition and maintained in the official grant file/or by the program. Due to current system limitations within SAGE it is believed this information is overwritten upon each new funding year or annual agency profile update and may not reflect actual 	<p>1 & 2: June 2009 3: Fiscal Year 2010</p> <p>Fiscal Years 2010 and 2011 (Specific actions are in process to address the findings, inclusive of special training for the community action agencies.)</p> <p>Brian Phillips (609) 984-2698</p>

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	board composition at time of award or during the audit period under review.	
Community Services Block Grant (93.569) 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
09-21 08-30 07-13 06-43 05-51 04-47	The Department of Community Affairs (DCA) has made significant progress in ensuring that corrective action plans are received timely when required from subgrantees as evidenced by the less than 5% late submission rate per KPMG’s testing this fiscal year. (1 of 21 tested received outside 60 days.) In the future for instances such as the one noted, DCA will send official follow-up notice of non-compliance once the deadline for submission has expired. Controls will also be strengthened to ensure that sufficient follow-up activities are conducted and documented by program staff for all entities who have submitted a corrective action plan to verify that procedures are being properly implemented. In instances where limited staffing resources prevent continuous on-site verification visits to confirm full compliance with corrective action plan implementation by subgrantees, program staff will ensure that remote activities conducted are documented and follow up correspondence is maintained as a compensating control activity.	Fiscal Year 2010 Brian Phillips (609) 984-2698
Low-Income Home Energy Assistance (93.568) State Agency: Department of Community Affairs Federal Agency: U.S. Department of Health and Human Services		
<i>Cash Management</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-22 08-32	Upon the transfer of this program to the DCA from the Department of Human Services in Fiscal Year (FY) 2008, the Department continued to employ the same drawdown methods used by Human Services and was not aware of its non-compliance with the prescribed CMIA prior month actual, mid-monthly funding technique for LIHEAP. Upon discovery of this non-compliance as reported in the prior year (FY 2008) audit, DCA began following the prescribed CMIA funding technique for LIHEAP midway through the current FY 2009 audit period.	Implemented Fiscal Year 2009 Brian Phillips (609) 984-2698
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
09-23 No finding in prior year	Department controls over the reconciliation process using the Department’s underlying financial records (SAGE & NJCFS) were enhanced and strengthened during State Fiscal Year (FY) 2009 and 2010 as evidenced by the lack of repeat findings being noted for reconciliation requirements under the current audit period to the SEFA. As a result of these enhancements the CSBG, LIHEAP, and DOE Weatherization programs now have an accurate mechanism to ensure that federal FSR reports are prepared based upon reconciled totals and that they agree to this support documentation prior to being approved and submitted to federal funding agencies. FSRs	Implemented Fiscal Year 2010 Brian Phillips (609) 984-2698

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	prepared prior to these process enhancements and identified by KPMG with errors under the FY 2009 NJ Single Audit for LIHEAP have been amended and resubmitted to US-HHS to correct the errors noted.	
Weatherization Assistance for Low-Income Persons (81.042) Weatherization Assistance for Low-Income Persons, Recovery Act (81.042) State Agency: Department of Community Affairs Federal Agency: U.S. Department of Energy		
<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
09-24 No finding in prior year	<p>The Division employs a Salary Cost Allocation Program (SCAP) to allocate the percentage of time that an employee will expend work efforts in particular program areas and appropriately proportions salary expenditures accordingly. In addition to the allocation of salary expenditures, SCAP is used prior to the beginning of each Fiscal Year (FY) to develop operating budgets, as well as documentation for future programs. The SCAP process and system has been accepted by the Department as a means for the Division to allocate administrative salary expenditures and has been in effect since FY 1998.</p> <p>The division will explore process changes that provide a certification and/or an after the fact reporting mechanism that is based on the SCAP process methodology currently employed to achieve compliance with the Circular Letter A-87 requirements.</p>	<p>Last Quarter Fiscal Year 2010 or Fiscal Year 2011 Brian Phillips (609) 984-2698</p>
Weatherization Assistance for Low-Income Persons (81.042) Weatherization Assistance for Low-Income Persons, Recovery Act (81.042) State Agency: Department of Community Affairs Federal Agency: U.S. Department of Energy		
<i>Reporting</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-25 No finding in prior year	<p>Department controls over the reconciliation process using the Department's underlying financial records (SAGE & NJCFS) were enhanced and strengthened during State Fiscal Year (SFY) 2009 and 2010 as evidenced by the lack of repeat findings being noted for reconciliation requirements under the current audit period to the SEFA. As a result of these enhancements the CSBG, LIHEAP, and DOE Weatherization programs now have an accurate mechanism to ensure that federal FSR reports are prepared based upon reconciled totals and that they agree to this support documentation prior to being approved and submitted to federal funding agencies. FSRs prepared prior to these process enhancements and identified by KPMG with errors under the FY 2009 NJ Single Audit for DOE-WAP have been amended and resubmitted to US-HHS to correct the errors noted.</p>	<p>Implemented Fiscal Year 2010 Brian Phillips (609) 984-2698</p>

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Adoption Assistance (93.659) Adoption Assistance, Recovery Act (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
09-26 08-25 07-41	Subsidy Agreement Renewal: <ul style="list-style-type: none"> The Division of Youth and Family Services (DYFS) reinstituted the annual renewal process for adoption subsidies on May 1, 2009—these have run continuously every month since. DYFS also reinstituted the process of sending a second letter to families who did not return their initial agreements also effective May 1, 2009 (Second letters were sent to all such families for the annual agreement periods from May 2009 through December 2009; second request mailing now in preparation for the January – February 2010 renewals). DYFS transitioned from the manual tracking system to an automated system in November 2009; at that time DYFS purchased a bar coding system that allows staff to quickly scan the renewal returns and track those that will receive the second request mailing. IVE Eligibility Prior to Adoption: The Department will revise its policy to require Title IVE eligibility determinations to be completed after the subsidy agreement is signed or after the finalization of adoption is completed. This change will align the Department policy with federal regulations.	November 2009 Ellen Kelly (609) 292 4441 August 2010 Alfonso Nicholas (609) 292 0908
Foster Care—Title IV-E (93.658) Foster Care—Title IV-E, Recovery Act (93.658) 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
09-27 08-27	The Department has improved the process for annual redeterminations by utilizing features in NJSPIRIT. Monitoring and tracking of the redeterminations will continue to further improve timely completion.	December 2010 Alfonso Nicholas (609) 292 0908

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Foster Care—Title IV-E (93.658) Foster Care—Title IV-E, Recovery Act (93.658) Adoption Assistance (93.659) Adoption Assistance, Recovery Act (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
09-28 08-6	<p>1. NJSPIRIT (NJS) Password Rules: The first stage of this process, the NJS infrastructure upgrade, is complete. The Department of Human Services (DHS) requires further hardware procurement to enable them to set up and establish Active Directory (AD) Integration and identity Management Project (ADAM) for the Department of Children and Families (DCF). The hardware purchases are pending approval.</p> <p>2. Formal Testing and Sign-off Process for Database Changes: Patches to the databases are implemented by DHS personnel at DCF's request by e-mail. DCF agrees with the recommendation and will jointly develop and implement a written protocol with DHS for requesting, approving, and documenting database patches.</p> <p>3. Disaster Recovery Test: The NJS infrastructure upgrade is completed. This allows existing servers to be reconfigured and used to complete the disaster recovery script. DHS (EBSU) is scheduled to have this completed in time to conduct a full-scale disaster recovery exercise by July 2011.</p> <p>4. Sensitive Access and Segregation of Duties: Access was not granted to clerks in the Local Offices. Designated DCF staff from each business office has the security to update or change the Resource Rate table.</p> <p>Formal review was completed in October 2009 and will be completed bi-annually in April and October. Review for October 2009 is complete.</p> <p>Office of Information Technology Resources (ITR) met with the Chief Administrator of the Office of Business Operations. The scheduled meeting took place in January 2010 and security profile solutions are being reviewed. On target for completion June 2010.</p> <p>The scheduled meeting took place in January 2010 and security profile solutions are being reviewed. On target for completion June 2010.</p> <p>5. Formal Sign off for Conversion of Fiscal Balances and Post-go-live Conversion Related Data Updates OITR developed a formal signoff approval process for any future conversions. For all functionality that requires a Fiscal conversion effort, a separate Acceptance Certificate document requires a sign-off by the Office of Accounting.</p> <p>6. User Access Provisioning and Monitoring</p>	<p>1. June 2011</p> <p>2. Implemented October 2009</p> <p>3. July 2011</p> <p>4. June 2010</p> <ul style="list-style-type: none"> • Implemented October 2009 • June 2010 • June 2010 <p>5. Implemented October 2009</p> <p>6. July 2010</p>

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	<p>Progress toward implementation has been made. In August 2009, ITR developed a formal documented protocol for all user access modification requests for NJSPIRIT. The protocol covers change requests from Area/Local Office staff, Central Office staff, and (Non DCF) Extranet Partners.</p> <p>In August 2009, ITR developed a formal documented protocol for all new user access requests for NJSPIRIT. The protocol covers adding a new Area/Local Office Employee, Central Office Employee, and (Non DCF) Extranet Partners.</p> <p>In August 2009, a memo was sent from DYFS Director to all Area Directors & Local Office Managers directing the implementation of the protocols used by ITR.</p> <p>Local Offices have been instructed to follow the same protocols used by ITR. Worker Management Assistants (WMA) in the individual offices are expected to enforce these protocols. Biannually, ITR shall test a random sample (10%) of offices to confirm protocol compliance beginning in October 2009. Statewide teleconferences were held to reinforce and ensure local offices were implementing the established protocol.</p> <p>NJ SPIRIT application (ITR—Security Unit): ITR staff will verify that the users permitted access to the application corresponds to the list of employees provided by our Office of Human Resources. This occurred October 27, 2009 and will be done annually in October thereafter.</p> <p>ITR staff will verify annually (beginning April 2010) that users security profiles corresponds with the Table of Organization provided by our Office of Human Resources.</p> <p>Infrastructure User Access (ITR—Network Unit): Implementation of the formal procedure will take place once infrastructure upgrade will be complete by July 2010.</p> <p>All other DHS applications (ITR—Security Unit): A formal procedure has been developed for gaining access to and being removed from multiple DHS applications.</p> <p>Formal reviews are completed annually (April). ITR staff will confirm with management that the lists of users permitted access to the applications are valid.</p> <p>Formal review was completed in October 2009 and will be completed bi-annually in April and October. ITR staff will confirm with management that the lists of users permitted access to the applications are valid.</p>	<ul style="list-style-type: none"> • Implemented August 2009 • Implemented August 2009 • Implemented October 2009 <p>Implemented October 2009 and annually thereafter</p> <p>Implemented April 2010</p> <p>July 2010</p> <p>Implemented October 2009</p> <p>July 2010</p> <p>Jason Ciseck (609) 292-6726</p>
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Special Supplemental Nutrition Program for Women, Infants, and Children (10.557) Special Supplemental Nutrition Program for Women, Infants, and Children, Recovery Act (10.557) Immunization Grants (93.268) Centers for Disease Control and Prevention: Investigations and Technical Assistance (93.283) 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
09-29 No finding in prior year	Management believes that subrecipient monitoring has been completed properly to ensure compliance with federal OMB Circular A-133. We agree that, during the audit period, the Grantee Single Audit (GSA) system was not updated with specific finding codes. The required update to the system with desk review audit codes was brought to the attention of the DHSS Audit Program in April of 2009. In July 2009, a new procedure to capture and update report audit findings using these codes in the GSA System was developed and implemented for all grantees with fiscal years ending during the 2008 year and continues to date.	Implemented July 2009 Walter C. Valora (609) 633-1528 Marsha Lau (609) 633-2764
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
09-30 08-40	The Department has enhanced its internal controls over cash drawdowns for the Vocational Rehabilitation program. While no internal control can preclude human error from ever happening, the enhanced procedures put in place will correct any error on the next drawdown, which is usually done on a daily basis. Additionally, a quarterly reconciliation of cash draws to expenditures will be performed. The enhanced procedures have been put in place on July 1, 2009. Quarterly reconciliation of draws to expenditures is being completed. The latest reconciliation was for the quarter ended December 31, 2009.	Implemented July 2009 James M. King (609) 292-1885
Vocational Rehabilitation Cluster (84.126, 84.390) State Agency: Department of Labor and Workforce Development Federal Agency: U.S. Department of Education		
<i>Reporting</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-31 No finding in prior year	The Department is reviewing the preparation of the SF 269 report in question. The June 30, 2009 SF-269 is correct, however, the documentation supporting it was coded incorrectly. A correcting CR transaction will be done to identify the Program Income with the correct year. Since the June 30, 2009 quarter ending SFR is correct, there is no questioned costs.	June 2010 James M. King (609) 292-1885

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Unemployment Insurance (17.225) Unemployment Insurance, Recovery Act (17.225) State Agency: Department of Labor and Workforce Development Federal Agency: U.S. Department of Labor		
<i>Reporting</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-32 No finding in prior year	The Department is reviewing the preparation of the ETA 9130 report for the quarter ended June 30, 2009. This amount is only one-tenth of a percent of the reported expenditures and the errors made were self-corrected in the FSR for September 30, 2009 as year-to-date figures are used to prepare these reports.	Implemented September 2009 James M. King (609) 292-1885
WIA Cluster (17.258, 17.259, 17.260) State Agency: Department of Labor and Workforce Development Federal Agency: U.S. Department of Labor		
<i>Subrecipient Monitoring</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-33 No finding in prior year	The Department's position is that the requirement to allocate 30% or more of Youth funds to Out-of-School youth activities should be calculated on the total amount of Youth funds available less the administrative funds applicable to Youth. We are seeking clarification on this issue with the USDOL. As an alternative position, a minimum of 30% of the administrative funds expended should count towards meeting the 30% of out-of-school requirement. The Department is not mandated to meet this requirement until the end of the second program year the funds are available. We are, however, as a result of this finding revising our monitoring programs to review this compliance requirement at the end of the second program year of funding. On a Statewide basis, the State did expend over 30% of its youth funds on Out-of-School youth activities.	May 2010 James M. King (609) 292-1885
Highway Planning and Construction Cluster (20.205, 20.210) 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
09-34 No finding in prior year	Wage Rate Inspections not performed on a monthly basis in accordance with State Policy: Civil Rights/Affirmative Action (CR/AA) will require that copies of wage rate inspection forms (Form DC-126) be submitted to the Wage Rate Unit along with Form DC-127, Monthly Summary of Contractor's Payroll. The Construction Procedures Handbook will also be revised to reflect this requirement. Payroll summaries not submitted on a monthly basis: CR/AA is currently working on procedures, which will include a spreadsheet/log to confirm receipt of the following documents on all active projects:	Immediate Amadeo Miro (609) 530-2151 June 2010

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	<ul style="list-style-type: none"> • Prime and subcontractors' certified payrolls; • Contractors' Statement of Compliance; • Form DC 127; and • Form DC- 126. <p>During Resident Engineers' (RE) Workshops, Civil Rights provides a detailed presentation of the RE and contractor's responsibilities as they relate to the Davis-Bacon Act. Further, to ensure that all REs receive training, particularly new REs, CR/AA is working with Capital Program Support to develop a Resident Engineers' Training Video, which will include the RE's responsibilities to actively ensure contractors' compliance with Equal Employment Opportunity (EEO), Affirmative Action (AA), Disadvantaged Business Enterprise (DBE) and Wage Rate (WR) contract provisions on construction projects. This video will include a comprehensive segment on the RE's obligation to collect and review certified payrolls, including the requirement to perform monthly wage rate inspections.</p> <p>The above actions will apply to all NJDOT construction projects (Capital Program Management and Operations).</p> <p>The New Jersey Department of Transportation's (NJDOT's) Construction Division has a Construction Procedure in place for compliance with the federal Davis-Bacon Act. The procedure can be found on the NJDOT Intranet at http://njdotintranet.dot.state.nj.us/divbur/cpm/constr/pdf/handbook.pdf under Section V, Subsection A of the Construction Procedures Handbook. The procedure outlines the duties and responsibilities of Contractor, Resident Engineer, and Division of Civil Rights. The Construction Quality and Assurance Unit of the Bureau of Construction Management performs Office Record Reviews for compliance with record keeping procedures on randomly select construction projects as required by federal Certification Acceptance participation, funding continuation and in accordance with procedures. Frequencies of the review are based on staffing and other priorities. Payrolls, Wage Rate, EEO, and Trainee documentation are part of the Office Record Reviews. The Division Director will send out a directive by April 23, 2010 to all his staff reminding them to follow the established procedures and enforce contract compliance with the contractor.</p>	<p>Vicki Tilghman-Ansley (609) 530-4071 Amadeo Miro (609) 530-2151</p> <p>September 2010 Jeffrey Overton (609) 530-3888</p> <p>Immediate Kiran Patel (609) 530-3811</p>
<p>Highway Planning and Construction Cluster (20.205, 20.210) State Agency: Department of Transportation Federal Agency: U.S. Department of Transportation</p> <p><i>Subrecipient Monitoring</i></p>		
FINDING # ¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
<p>09-35 No finding in prior year</p>	<p>The Division of Local Aid and Economic Development's <i>Federal Aid Handbook, Procedures for Federal Aid</i> includes a list of required documentation to be submitted by the subrecipient for reimbursement of partial and final payment vouchers. As a result of FHWA's Financial Integrity Review and Evaluation dated July 2008, the Division of Local Aid developed an enhanced procedure for the systematic review of project billings and costs of major construction projects to verify costs and evaluate the Local Public Agency's (LPA) accounting controls. The NJDOT Office of Internal Audit, within the Office of the Inspector General, and FHWA provided guidance to Local Aid on the risk based sampling of projects. Projects with inactive billings and projects funded through the American Recovery and Reinvestment Act were identified as high risk and candidates for the systematic audits. It has been agreed with FHWA that full testing and verification of contract costs for every federal-aid LPA project is not required.</p> <p>It should be noted that KPMG audited 30 subrecipient transactions in March 2010. For 30 out of 30 of the transactions selected, KPMG found that all source documentation (i.e. checks, invoices) indicating actual expenses incurred by the subrecipient was provided in accordance with Local Aid's Procedures for Federal Aid. Based on the outcome of these audits, it appears Local Aid has adequate</p>	

¹ Current and prior year finding number(s)

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	<p>existing policies and procedures in place to meet KPMG's audit requirements. In addition, it appears the subrecipients are administering the federal awards in compliance with laws, regulations, and provisions of contract and grant agreements.</p> <p>Corrective Action Plan: In January 2010, the Division of Local Aid presented FHWA with the final draft procedure for conducting systematic audits of federal-aid LPA projects. The proposal also addressed training requirements for Local Aid staff and a preliminary list of federal-aid projects subject to audit. Preliminary schedules for the audits were also discussed. FHWA concurred in the proposal.</p> <p>In March 2010, the Division met with FHWA to finalize the procedures and checklist developed to assist Local Aid staff in conducting the systematic financial audits of LPA projects. The checklist is comprehensive and utilizes FHWA's Improper Payment Review Workbook as a source. This document provides guidance in monitoring the LPA's accounting and contract administration controls for federal-aid projects. The procedure provides Local Aid staff direction in conducting the financial audits in the field. Six projects were identified for audit.</p> <p>In late March and early April 2010, Local Aid staff met with the FHWA. The purpose of the workshops was to discuss conducting of field audits from FHWA's perspective. The second session was held as a follow-up to further refine the Local Aid audit process.</p> <p>A training session was held with Local Aid staff in March 2010. The training provided an overview on audit procedures, discussed the checklist and provided examples of materials to be reviewed during the field audit. Follow up meetings in April 2010 were held with District staff to review audit procedures on specific invoices from previously selected projects.</p> <p>During the week of April 26, and the month of May 2010, Local Aid will conduct a series of systematic financial audits utilizing the procedures and checklist developed. In mid June, Local Aid will schedule a follow up meeting with FHWA to discuss lessons learned from the audit process and will finalize its internal procedures and checklist. Additional audits will be conducted for the remainder of the year, with the goal of conducting an audit on projects in each county by the end of 2010.</p>	<p>January 2010</p> <p>March 2010</p> <p>March to April 2010</p> <p>March 2010</p> <p>April to December 2010</p> <p>Michael Russo (609) 530-3640 Shukri Abuhuzeima (609) 530-4680 Julie Seaman (609) 530-5265</p>
<p>State Fiscal Stabilization Fund—Government Services, Recovery Act (84.397) State Agency: Department of Corrections Federal Agency: U.S. Department of Education</p> <p><i>Activities Allowed or Unallowed and Allowable Costs/Cost Principles</i></p>		
FINDING # ¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
<p>09-36 No finding in prior year</p>	<p>In addition to signing the daily timesheets for employees in their unit, the supervisor is also responsible for reviewing and signing the bi-weekly verification sheets. These verification sheets are a print out of the actual Time and Leave Reporting System (TLRS) record for that pay period for each employee, including leave time used and overtime worked. Therefore, we have an internal control in place that if the supervisor misses a signature on an individual timesheet, the supervisor is also required on a bi-weekly basis to review these verification reports with the timesheets and verify that the information entered into the TLRS system is correct.</p>	<p>Implemented April 2010 Stephen Matis (609) 292-8697</p>

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	Additionally, the Administrators of the facilities involved have been notified by our auditing unit of the discrepancies identified in the audit report and have been asked to remind the supervisors involved that they are required to sign all employee timesheets. The Office of Human Resources issued a memorandum, dated April 15, 2010, reminding supervisors at each facility that they must sign all employee time sheets.	
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		
<i>Reporting</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-37 No finding in prior year	The Department of Military and Veterans' Affairs will ensure that each respective federal program manager submits a request for reimbursement to the National Guard Bureau based upon the billing information submitted to them by the Department's Fiscal Division. All billings will continue to be reviewed carefully by the Fiscal Division's Federal Account Manager.	Immediate Thomas DeShields (609) 530-6718
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		
<i>Davis-Bacon Act and Procurement</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-38 No finding in prior year	<p>The Department of Military and Veterans' Affairs currently does have a sign-out sheet procedure for the contractor files. It is the policy that any individual requiring access to a contract file within the Installations Division sign the contract file out on the sign-out sheet. This current policy will be more strictly enforced.</p> <p>The Department is now confirming that each contractor is submitting the certified payroll prior to any progress payments.</p> <p>There is also an existing approval procedure for contractor change orders. The position of Chief of Construction Management has been filled and is the reviewer of all change order requests and recommends approval to the contracting officer.</p>	Immediate Edward Sain (609) 530-6993
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		
<i>Reporting</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-39 No finding in prior	The Department of Military and Veterans' Affairs currently reconciles on a monthly basis to the New Jersey Comprehensive Financial System. The Department will now also reconcile to the amounts as reported on the SEFA.	Immediate Thomas DeShields (609) 530-6718

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year		
Help America Vote Act Requirements Payments (90.401) State Agency: Department of State Federal Agency: U.S. Election Assistance Commission <i>Subrecipient Monitoring</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-40 08-21 07-38 06-36	The Department has included, as part of its outgoing funding notice, verbiage to indicate that the funding source for associated reimbursements is CFDA 90.401 HAVA Funds.	Implemented Fiscal Year 2009 Michael DiSimoni (609) 826-3946
Help America Vote Act Requirements Payments (90.401) State Agency: Department of State Federal Agency: U.S. Election Assistance Commission <i>Level of Effort</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-41 No finding in prior year	The Department will implement sending notices out to counties to monitor and ascertain their level of effort respectively. This is the same process utilized by the Department of Law and Public Safety.	May 2010 Michael DiSimoni (609) 826-3946
Special Education Cluster (84.027, 84.173) Career and Technical Services—Basic Grants to States (84.048) Improving Teacher Quality State Grants (84.367) 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
09-42 08-46	The finding indicates, in part, “During the State fiscal year (SFY) 2009, 314 subrecipients were required to submit OMB Circular A-133 audit reports to the Office. Of the 314 audit reports required to be submitted, the Office did not complete any desk reviews.” The Office of Fiscal Accountability and Compliance (OFAC) concurs that we have been unable to fulfill our obligation to conduct desk reviews of OMB Circular A-133 audit reports (Single Audit Reports or SARs) in a timely manner. The principal factors that contribute to this finding continue through the present date. Specifically, the OFAC has been unable to fill a vacant position dedicated to this function for nearly two years due to a hiring/promotion freeze. In addition, the OFAC needed to perform desk reviews of reports received during the prior State fiscal year to mitigate potential questioned costs associated with a similar finding.	

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	<p>Corrective Action Plan:</p> <p>The OFAC developed a revised work plan for the review of Single Audit Reports in January 2010 in an effort to ensure compliance with the pass-through entity responsibilities set forth by OMB Circular A-133. Specifically, the work plan consists of two tiers. Tier One requires that all Comprehensive Annual Financial Reports (CAFRs) undergo an initial review. Items checked in the Tier One Initial Review process include, but are not limited to: 1) timely receipt of reports; 2) determining whether the inclusion of a Single Audit Report (SAR) is necessary; 3) ensure that a SAR contains the appropriate reports/schedules and 4) re-calculation of the Type A/B Program threshold.</p> <p>Tier Two involves the quality control reviews (QCR) of selected SARs using a comprehensive 14-page Qualitative Assessment Review checklist developed by the department's Division of Finance (DOF). The population size will consist of the combined federal award and State financial assistance expenditure data received from all New Jersey school districts (via AUDSUM), which resulted in the submission of SARs. Reports that comprise at least 10% of the aggregate combined expenditures that were subject to the Single Audit Act will be selected for QCR.</p> <p>In February 2010, the OFAC met with representatives from KPMG to discuss the revised work-plan and began implementation of the same the following month on a retroactive and prospective basis. Additionally, the OFAC has scheduled a meeting with the DOF to discuss preparation of a Single Audit Summary (SAS) by LEAs based on recommendations from a staff member within OFAC and KPMG representatives. The purpose of this requirement is to achieve operational efficiency and to expedite Tier One Initial Reviews of CAFRs due for the fiscal year ending June 30, 2010 and thereafter.</p> <p>In regards to proper follow-up of SARs that were not received before the required submission deadline, the OFAC will review the appropriate GSA report every January to ensure that all reports due from LEAs and non-LEAs have been received. County Offices will be contacted to ascertain if a report due from an LEA that not filed with OFAC was received by their office. If not, a letter will be sent to the school district requiring submission of the CAFR and related documentation within 30 days. Non-LEAs will be contacted initially on the telephone, followed by a letter that requires submission of the SAR within 30 days.</p> <p>Finally, it warrants mention that the implementation of corrective action outlined herein is contingent upon available staffing.</p>	<p>Unable to specify a completion date at this time due to recurrent staffing problems.</p> <p>January 2011</p> <p>Lisa D. McCormick (609) 292-7742</p>
<p>Career and Technical Education—Basic Grants to States (84.048) State Agency: Department of Education Federal Agency: U.S. Department of Education</p> <p>Reporting</p>		
FINDING # ¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-43 No finding in prior year	Collection and examination of data are a continual process. The staff may review and save the data at a variety of points and run a query for informational purposes. A query may be saved at any of those points until the date at which the report is due to the U. S. Department of Education, resulting in queries with a variety of data reflecting the input to each of those dates. While that data are submitted for the Consolidated Annual Report (CAR), the Office continues to collect and refine data from districts. This insures that more complete and accurate data are available when the calculations are performed to determine the funding to which each district is entitled. We believe the data were correct on the date at which the CAR was submitted. Unfortunately, when the formula was audited, the staff responsible for data collection could not locate the specific data file on which the report was based. It may have been overwritten or inadvertently deleted. To further elaborate, there may have been ten different dates on which a file was saved for the data. The CAR was submitted	July 2010 Randy Trivette (609) 984-5900 Shinlan Liu (609) 633-1056

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	<p>using file number 7. Later, file number 7 could not be located to check against the data in the CAR. Running a query using another file created different results that, while accurate, did not agree with the data in the CAR. We recognize that there must be a better method of controlling the input and storage of the data to insure accountability and reliability.</p> <p>Corrective Action Plan: The Office of Career and Technical Education will review the current procedures for improvement. The Office will determine the most appropriate methods of storage of the data which could include:</p> <ul style="list-style-type: none"> • Each updated data table could be saved to a separately dated file and locked to deny erasure or alteration • Remove “extra” data files to reduce the possibility of confusion among data files • Back up the specific files used to submit data for the CAR and/or other reports on a specific drive, in a protected folder. <p>All data reports will be reviewed by the Office Manager and/or the Office Director prior to finalization and submission of the reports.</p>	
<p>Career and Technical Education—Basic Grants to States (84.048) State Agency: Department of Education Federal Agency: U.S. Department of Education</p> <p><i>Subrecipient Monitoring</i></p>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-44 08-42	<p>Notification of CFDA Number: All award letters to the subrecipients for the Fiscal Year (FY) 2011 grant year have been redesigned to include the federal award information, specifically the CFDA title and number, award name, and the name of the federal agency.</p> <p>The first page of the on-line FY11 EWEG application will include the federal award information, specifically the CFDA title and number, award name, federal website link, and name of federal agency.</p> <p>During-the-Award Monitoring: The Office of Career and Technical Education (OCTE) has established and implemented a plan for on-site monitoring. Staff received information from the Office of Grants Management and other offices to establish the monitoring selection criteria for all grantees. All grants of \$500,000 or more will be monitored every two years. A risk analysis process has been established to identify additional subrecipients that require on-site monitoring. Twenty per cent of the eligible grantees will be assessed annually for risk factors. The risk factor assessment will be used to determine the grantees that are most at risk. A monitoring schedule has been created and all monitoring visits will be conducted, including reviewing reports, site visits, and regular contact via telephone, e-mail and other methods of correspondence. Written reports will be filed for each monitoring visit.</p> <p>During the award year, the OCTE staff members are in regular contact with Perkins grant subrecipients, through phone calls and e-mails, to assess progress and answer questions concerning grant activities and expenditures. In addition, the staff members employ a rigorous process during the review and approval of the grant applications to help correct errors and prevent inappropriate activities and expenditures <u>prior</u> to approval of the funding application. The subrecipient’s proposed activities and proposed budget are examined for appropriateness based upon the amount of funding available and the subrecipient’s performance on federally mandated measurements for academic achievement, skills proficiency, graduation rates, post graduation placement rates, and non-traditional (for gender) participation and completion. Grant program officers also conduct site visits, as needed, for technical assistance during the grant award year to review programs, assess progress, and assist with grant implementation. The office has also adopted a documentation process for</p>	<p>April 2010 Randy Trivette (609) 984-5900</p> <p>April 2010 Randy Trivette (609) 984-5900</p> <p>Selection criteria: December 2009 Monitoring visits: June 2010 Randy Trivette (609) 984-5900 Howard Garey (609) 292-7433</p>

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	technical assistance provide on an on-going basis, via telephone calls, e-mail messages and other contact.	
Career and Technical Education—Basic Grants to States (84.048) State Agency: Department of Education Federal Agency: U.S. Department of Education <i>Suspension and Debarment</i>		
FINDING #¹	VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN	COMPLETION DATE/ CONTACT PERSON
09-45 08-43	The Fiscal Year (FY) 2010 Perkins grant for subrecipients was released in May 2009. The FY 2010 grant applications have the following language in the Statement of Assurances to which each subrecipient must agree: <i>“The applicant, as well as its principals (Board of Education, Superintendent, Business Administrator) and subcontractors, for all contracts in excess of \$25,000, is not presently debarred, proposed for debarment, declared ineligible, suspended or voluntarily excluded by a federal agency from receiving federal funds in accordance with Executive Orders 12549 and 12686.”</i> This language is also included in the FY 2011 Perkins grant applications and will be added to all future grant applications.	Implemented June 2009 for FY 2010 grants. May 2010 for FY 2011 grants. Randy Trivette 609-984-5900
Special Education Cluster (84.027, 84.173) 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
09-46 08-41	<p>The IDEA application is established with electronic parameters that control how IDEA funds are allocated. Technical assistance is provided by both the county level staff and the NJ Office of Special Education Programs (NJOSEP) during the application process to assist subrecipients in creating approvable IDEA budgets. If questionable expenditures are identified, based on county office/NJOSEP review, the application is returned with comment requesting a correction and/ or clarification from the subrecipient (documentation may be requested, if necessary). This process is repeated until an approved application/report is reached. During the review process and throughout the year County staff provide onsite technical assistance to selected grantees where application/report issues are identified.</p> <p>The NJOSEP has expanded its current process for oversight and monitoring of subgrantees’ compliance with federal regulations. Policies and procedures have been developed to establish a monitoring system which will include criteria for selection of districts, monitoring processes (including but not limited to: application review, desk review, telephone interview, on-site monitoring) and the issuance of a report of findings. Based on the criteria for selection of districts, NJOSEP will develop a monitoring schedule of subgrantees. Monitoring reports are posted on the public drive.</p> <p>Onsite Monitoring: A committee of DOE staff developed an onsite monitoring system that includes the monitoring of the regular IDEA and ARRA IDEA grants. The committee meetings resulted in :</p> <ul style="list-style-type: none"> • Development of an IDEA monitoring grant process that includes: <ul style="list-style-type: none"> ○ Desk Audit on selected areas of the grants (County Office Staff) for districts not receiving an onsite review ○ EWEG Review and Approval through the electronic grant system (two tier review) as described above ○ An onsite monitoring • Establishment of Risk Factors for the IDEA and ARRA IDEA grants 	Implemented November 2009 Roberta Wohle (609) 633-6430 Patricia Holcomb-Gray (609) 984-4953

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	<ul style="list-style-type: none">• Selection of districts(90) for an onsite review (2009-2010 year)• Formation and training of Regional TEAMS to conduct the onsite review• Development of a document schedule to assist the LEA in preparation for the onsite review• Development of the Pre-review and Onsite review checklist tools• Development of basic report structure <p>Based on the risk assessment analysis 90 districts have been scheduled for an onsite review during the 2009-2010 year. Districts that have significant issues identified through the onsite review will be forwarded to the Office of Fiscal Accountability and Compliance for further review. A district may also be required to complete a CAP, which will be followed up by the county office. This is not resolved yet.</p>	
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