

Office of the State Auditor

State of New Jersey

**Internal Control And Compliance Reports
Related to Our Audit of The State's Comprehensive Annual
Financial Report**

**For the Fiscal Year
Ended June 30, 1995**

State of New Jersey

Internal Control and Compliance Reports Related to Our Audit of the State's Comprehensive Annual Financial Report

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The Honorable Christine Todd Whitman
Governor of New Jersey

The Honorable Donald T. DiFrancesco
President of the Senate

The Honorable Jack Collins
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

We have audited the general purpose financial statements of the State of New Jersey, as of and for the year ended June 30, 1995, and have issued our report thereon dated September 29, 1995. In connection with that audit, we tested the internal control structure and compliance with laws and regulations. The results of our tests are contained in the following reports:

1. Independent Auditor's Report on the Internal Control Structure at the Financial Statement Level.
2. Independent Auditor's Report on Compliance with Laws and Regulations at the Financial Statement Level.

Along with the reports listed above, there is included an internal control and compliance findings and recommendations section.

The audit was performed and these reports are submitted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1.6 of the State Constitution, and Title 52 of the New Jersey statutes.

Richard L. Fair
State Auditor
June 3, 1996

The Honorable Christine Todd Whitman
Governor of New Jersey

The Honorable Donald T. DiFrancesco
President of the Senate

The Honorable Jack Collins
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

Independent Auditor's Report on the Internal Control Structure at the Financial Statement Level

We have audited the general purpose financial statements of the State of New Jersey, as of and for the year ended June 30, 1995, and have issued our report thereon dated September 29, 1995.

We conducted our audit in accordance with generally accepted auditing standards and 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 general purpose financial statements are free of material misstatement.

The management of the State of New Jersey is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control

structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the general purpose financial statements of the State of New Jersey for the year ended June 30, 1995 we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion. Our examination did not include a review of the internal control structure of the component unit authorities and the college and university funds. The financial statements of these funds are reviewed by other auditors and responsibility for the internal control structure is a function of the individual entities which manage these funds.

We noted a matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the state's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

The matter involving the internal control structure and its operation that we consider to be a reportable condition is establishing proper authorization procedures for financial transactions. This matter is discussed in detail in the findings and recommendations section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the State of New Jersey, in a separate letter dated September 29, 1995.

This report is intended solely for the use of management of the state. However, this report is a matter of public record and its distribution is not limited.

Richard L. Fair
State Auditor
September 29, 1995

The Honorable Christine Todd Whitman
Governor of New Jersey

The Honorable Donald T. DiFrancesco
President of the Senate

The Honorable Jack Collins
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

Independent Auditor's Report on Compliance with Laws and Regulations at the Financial Statement Level

We have audited the general purpose financial statements of the State of New Jersey, as of and for the year ended June 30, 1995, and have issued our report thereon dated September 29, 1995.

We conducted our audit in accordance with generally accepted auditing standards and 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 financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the State of New Jersey is the responsibility of the state's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the state's compliance with certain provisions of laws, regulations,

contracts, and grants. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. Our examination did not include procedures to test compliance with certain laws, regulations, contracts, and grants at the financial statement level of the component unit authorities and the college and university funds. The financial statements of these funds are reviewed by other auditors and responsibility for complying with laws, regulations, contracts, and grants at the financial statement level is a function of the individual entities which manage these funds.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

We noted certain immaterial instances of noncompliance that we have reported to the management of the State of New Jersey in a separate letter dated September 29, 1995.

This report is intended solely for the use of management of the state. However, this report is a matter of public record and its distribution is not limited.

Richard L. Fair
State Auditor
September 29, 1995

State of New Jersey

Internal Control Finding and Recommendation Related to Our Audit of the State's Comprehensive Annual Financial Report

Summary

We have audited the general purpose financial statements of the State of New Jersey, as of and for the year ended June 30, 1995, and have issued our report thereon dated September 29, 1995. Our audit included a review of the internal control structure and compliance to laws, regulations, contracts and grants. During our tests of the internal control structure at the financial statement level, we noted some reportable conditions that should be addressed by management.

Internal Controls - Transaction Approval

Our review noted that some of the administrative support personnel including the financial reporting unit in the Department of the Treasury, possess all three levels of approval necessary to enter a transaction into the state accounting system without additional supervisory approval.

While new procedures were initiated in April 1995 to improve internal controls over the approval process, there is still a weakness. We noted a significant number of single person approvals and the ability to create and change transactions still occurring within the Department of the Treasury. Incomplete application of internal control procedures by management may result in inappropriate transactions not being detected.

Recommendation

We recommend that the Department of the Treasury, Office of Management and Budget comply with the department's circular letter 95-11 on internal accounting controls.