



**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**

**State of New Jersey
Report on Internal Control and on
Compliance and Other Matters
Related to Our Audit of the State's
Comprehensive Annual Financial Report**

For Fiscal Year Ended June 30, 2005

**Richard L. Fair
State Auditor**

2004-2005

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New Jersey State Legislature

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The Honorable Jon S. Corzine
Governor of New Jersey

The Honorable Richard J. Codey
President of the Senate

The Honorable Joseph J. Roberts, Jr.
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the State of New Jersey Report on Internal Control and on Compliance and Other Matters Related to Our Audit of the State's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2005. If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in cursive script that reads "Richard L. Fair".

Richard L. Fair
State Auditor
March 28, 2006

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We have audited the financial statements of the State of New Jersey as of and for the year ended June 30, 2005 and have issued our report thereon dated December 30, 2005. In connection with that audit, we tested internal controls and compliance to laws and regulations. The results of our tests are contained in our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.

The audit was performed and this report is submitted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Richard L. Fair
State Auditor
March 27, 2006

State of New Jersey
Report on Internal Control and on Compliance and Other Matters
Related to Our Audit of the State's Comprehensive Annual
Financial Report

Table of Contents

	Page
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1

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President of the Senate

The Honorable Albio Sires
Speaker of the General Assembly

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Executive Director
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REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the government activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of New Jersey as of and for the year ended June 30, 2005, which collectively comprise the state's basic financial statements and have issued our report thereon dated December 30, 2005. We did not audit the financial statements of the discretely presented component units, the Pensions and Other Employee Benefits Trust Funds, and the Port Authority of New York and New Jersey which represent 100 percent of the assets and revenues of the aggregate discretely presented components units, 100 percent of the assets and revenues of the Health Benefits Local Government Employees Program Fund which is a major proprietary fund, 89 percent of the assets and 37 percent of the revenues (including additions) of the aggregate remaining fund information, and 100 percent of the information disclosed in Note 2-G of the basic financial statements. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts and disclosures included for the component units, the Pensions and

Other Employee Benefits Trust Funds, and the Port Authority of New York and New Jersey, are based solely on the reports of the other auditors. Our report contained herein on internal control over financial reporting and on compliance and other matters excludes the component units, the Pensions and Other Employee Benefits Trust Funds, and the Port Authority of New York and New Jersey. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of New Jersey's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of New Jersey's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the State of New Jersey, the legislature, 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.

Richard L. Fair
State Auditor
December 30, 2005