

Office of the State Auditor

Audit Report

**Department of the Treasury
Division of Property Management
Property Rental Interdepartmental Accounts**

July 1, 1993 to March 31, 1995

**Department of the Treasury
Division of Property Management
Property Rental Interdepartmental Accounts**

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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 completed an audit of the Property Rental Interdepartmental Accounts for the period July 1, 1993 through March 31, 1995.

We found that the financial transactions included in our testing were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. However, we did note that controls could be strengthened in the areas of lease escalation payments, lease management fees and cash receipts. Details of the findings and recommendations are included in our report.

This audit was conducted 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

**Department of the Treasury
Division of Property Management
Property Rental Interdepartmental Accounts**

Scope

We have completed an audit of the Property Rental Interdepartmental Accounts, administered by the Department of the Treasury, Division of Property Management, for the period July 1, 1993 to March 31, 1995. Our audit included financial activities accounted for in the state's General Fund.

Total expenditures of the accounts during the twenty-one month audit period were \$301 million. The prime responsibility of the property rental interdepartmental accounts is to provide for the payment of rents for offices and other facilities used by state agencies. Also, the account funds lease-purchase agreements for buildings whose titles will pass to the state upon the final lease payment. Revenues of the agency totaled five million dollars during our audit period and the major component of revenue was employee housing rentals. Four million dollars was deposited to the interdepartmental accounts and the balance to treasury accounts. Our testing of revenue included all lease related receipts. This included both interdepartmental and treasury accounts due to the similarity of internal control procedures for the revenue sources involved.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the agency's programs, were reasonable and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report.

This audit was conducted 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.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal control structure.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Transactions were selected using auditor's judgment.

Our audit included the lease procurement process. We selected agency space planning requests received by the division and followed their progress through the documented approval process.

We performed detailed testing and analysis of lease payments processed through the Lease Management Information System and verified the propriety of these transactions as processed through the division's automated payment system.

An analysis of the division's revenue was performed to identify revenue sources. We tested, on a sample basis, selected cash receipt transactions included within our scope.

To ascertain the status of findings included in our prior reports, we identified corrective action, if any, taken by the agency and walked through the system to determine if the corrective action was effective.

Conclusions

We found that the financial transactions included in our testing were related to the agency's programs, were reasonable, and were properly recorded in the accounting systems. In making this determination, we noted certain significant internal control weaknesses and matters of compliance with laws and regulations meriting management's attention.

We also found that the agency has resolved the significant issues noted in our prior report.

Details of our findings and recommendations follow.

Lease Contract Escalation Clauses

Finding

Lease agreements negotiated by the division include an escalation clause which allows a lessor to receive reimbursement for increases in allowable expenses over base year expenditures. Allowable expenses include items such as property taxes, management fees, and operating expenses. Our review of approved escalation payments disclosed the following.

- C Based on information submitted by the lessor an employee calculates escalation payment amounts. Payments are then approved by a divisional supervisor and the departmental fiscal unit. We noted however, that neither of the approval procedures included an analysis of supporting documentation for the escalation payment. An adequate system of internal control requires a level of segregation of duties be in place to safeguard assets and to assure accuracy. The individuals who approve escalation payments should review supporting documentation. This would reduce the possibility of an error occurring and not being detected.

- C The lease contracts contain a provision for management fees calculated as a percentage of the lease amount, however the percentages were not specified in the lease agreement or supported by the lessor in his escalation request. Without clearly defining the percentages within the terms of the contract, the division cannot adequately evaluate requests for payment, which could result in the payment of an excessive amount.

Recommendation

We recommend:

- C The payment approval officer review supporting documentation prior to signing payment vouchers.

- C The division negotiate specific reimbursement rates covering management fees on a contract-by-contract basis.

Cash Receipt Transactions

Finding

During our audit period the division received \$2.7 million (approximately \$130,000 per month) of cash payments for leased space. Our testing of the revenue received by the division disclosed the following.

- C Division procedures did not require that receipts be deposited in accordance with Department of the Treasury Circular Letter 94-24. The circular requires agencies to deposit moneys the same day they are received. The timely deposit of revenue permits the state to better manage its financial resources and maximize its investment earnings. In addition undeposited receipts are at risk of loss. Our testing of 42 cash receipts found that 39 had been deposited late, up to 38 business days after receipt.
- C Agency deposit records are not reconciled periodically with the state financial accounting system or internal accounting records to assure that all revenue has been properly deposited and recorded. Management is responsible for this function and had not established appropriate procedures.

Recommendation

We recommend the division establish procedures to assure that cash receipts are deposited in compliance with the requirements of Treasury Circular Letter 94-24. In addition, division cash receipts should be periodically reconciled with the accounting records for propriety.