



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

---

**Department of the Treasury  
Office of Management and Budget  
Statewide Cost Allocation Plan**

July 1, 2015 to September 1, 2017

---

**Stephen M. Eells  
State Auditor**

LEGISLATIVE SERVICES COMMISSION

SENATOR  
STEPHEN M. SWEENEY  
*Chairman*

ASSEMBLYMAN  
JON M. BRAMNICK  
*Vice-Chairman*

SENATE

CHRISTOPHER J. CONNORS  
NIA H. GILL  
ROBERT M. GORDON  
THOMAS H. KEAN, JR.  
JOSEPH M. KYRILLOS, JR.  
JOSEPH PENNACCHIO  
LORETTA WEINBERG

GENERAL ASSEMBLY

ANTHONY M. BUCCO  
JOHN J. BURZICHELLI  
JOHN DIMAIO  
THOMAS P. GIBLIN  
LOUIS D. GREENWALD  
NANCY F. MUNOZ  
VINCENT PRIETO



*New Jersey State Legislature*

OFFICE OF LEGISLATIVE SERVICES

OFFICE OF THE STATE AUDITOR  
125 SOUTH WARREN STREET  
PO BOX 067  
TRENTON NJ 08625-0067

PERI A. HOROWITZ  
*Executive Director*  
(609) 847-3901

OFFICE OF THE STATE AUDITOR  
(609) 847-3470  
FAX (609) 633-0834

STEPHEN M. EELLS  
*State Auditor*

DAVID J. KASCHAK  
*Assistant State Auditor*

JOHN J. TERMUNA  
*Assistant State Auditor*

The Honorable Chris Christie  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Vincent Prieto  
Speaker of the General Assembly

Ms. Peri A. Horowitz  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of the Treasury, Office of Management and Budget, Statewide Cost Allocation Plan for the period of July 1, 2015 to September 1, 2017. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells  
State Auditor  
December 13, 2017

## Table of Contents

Scope.....	1
Objectives .....	1
Methodology.....	1
Conclusions.....	2
Background.....	2
Findings and Recommendations	
Indirect Cost Recovery Oversight.....	4
Auditee Response.....	6

---

### ***Scope***

We have completed an audit of the Department of the Treasury, Office of Management and Budget (OMB), Statewide Cost Allocation Plan (SWCAP) for the period July 1, 2015 to September 1, 2017. Our audit included statewide indirect cost calculations and allocations thereof and financial activities accounted for in the state's General Fund.

The purpose of calculating and allocating statewide indirect costs is to assist state departments, agencies, or offices in maximizing the recovery of indirect and administrative costs from all federal, non-state, and fee-supported programs.

Fiscal year 2016 allocated indirect statewide costs were approximately \$155 million. Indirect cost recoveries recorded in the state's General Fund for fiscal year 2016 were approximately \$22.7 million which is consistent with past years.

Our scope did not include the calculation, recovery, or accounting of fringe benefit costs.

### ***Objectives***

The objectives of our audit were to determine if the statewide indirect costs and allocation calculations were reasonable and accurate, whether the SWCAP was included in departments' and agencies' federally-approved indirect cost rate, whether the recoveries for those costs were remitted to the OMB, and whether the subsequent distribution of excess recoveries was allowable. An additional objective was to determine the adequacy of select general controls over the program used to calculate the SWCAP.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 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. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In preparation for our testing, we studied circulars promulgated by the New Jersey Department of the Treasury, annual New Jersey appropriations handbooks, and U.S. Office of Management and Budget circulars. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our testing of the indirect cost allocation process and indirect cost recovery financial transactions.

We also read budget messages, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the functions and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions on our audit objectives as well as internal controls and compliance. Sample transactions were judgmentally selected for testing.

### ***Conclusions***

We found that the statewide indirect costs and allocation calculations were reasonable and accurate. We also found select general controls over the SWCAP calculation files to be adequate. Most departments and agencies included the SWCAP in their federally-approved indirect cost rate and related recoveries were remitted to the OMB. However, the subsequent distribution of excess recoveries to several departments was not in compliance with the applicable circular. In making these determinations we found that enhanced oversight over the entire process by the OMB may increase total recoveries.

### ***Background***

The Office of Management and Budget (OMB) prepares the annual Statewide Cost Allocation Plan (SWCAP) by accumulating the costs of agencies providing central support services and allocating them to receiving state entities (departments). The SWCAP is calculated in accordance with Title 2, Part 200 of the Code of Federal Regulations, is approved by the U.S. Department of Health and Human Services, and is disseminated to all departments by the OMB. The SWCAP for fiscal year 2016 was \$155 million and did not include fringe benefit costs.

Departments that participate in federal, non-state, and fee-supported programs (participating departments) are responsible for maximizing the recovery of indirect and administrative costs associated with those programs. Participating departments maximize indirect cost recoveries by adding their own departmental indirect costs to their respective SWCAP share and then incorporating the state fringe benefit rate to arrive at a proposed department indirect cost rate. Each department's indirect cost rate is then proposed, negotiated, and approved by its cognizant federal agency.

Participating departments receive federal, non-state, and fee-supported program reimbursements routinely, some of which are inclusive of indirect costs. The participating departments are responsible for calculating the portion of the recovery attributable to indirect costs and transferring that amount to a General Fund revenue account maintained by the OMB. The SWCAP costs recovered by the participating departments and transferred to this account in fiscal year 2016 were \$22.7 million.

During our audit period, the annual Appropriation Act General Provision number 38 granted the OMB Director the authority and discretion to return recoveries, in excess of that which was anticipated, to departments. Due to the state's budgeting methodology, recovered amounts are normally considered excess. The distribution of excess recoveries in fiscal year 2017 was \$20.3 million and distributions averaged \$17.8 million for fiscal years 2014 through 2016. The OMB must notify the Legislative Budget and Finance Officer when a transfer occurs. We noted this required notification is consistently provided.

## **Indirect Cost Recovery Oversight**

### **Enhanced oversight may increase total indirect cost recoveries.**

The current recovery process inhibits the OMB and the legislature from effectively monitoring the total recovered and potentially the amount recovered yet not transferred to the OMB.

The Department of the Treasury Circular 96-16-OMB issued in 1996 requires departments to prepare their own federal indirect cost rate proposal and to furnish a copy of the proposal and federally-approved rate to the OMB each year. The indirect cost proposals provide the federally-approved indirect cost rate to be used by the participating departments to calculate their indirect cost recoveries. These indirect cost proposals could be used by the OMB to more effectively monitor recoveries. We found 10 of 11 participating departments did not submit the required proposal to the OMB. We were able to obtain nine proposals at the participating departments.

Participating departments are required to transfer all indirect costs recovered to the OMB. Transfers of indirect cost recoveries include the SWCAP and other departmental indirect and fringe benefit costs. The OMB does not require any supporting documentation for the calculation to accompany the transfer, nor do they use the indirect cost rate proposals to determine whether the calculated amounts transferred are accurate.

Although the annual appropriations handbook gives the OMB Director the authority to distribute excess recoveries, the OMB circular states that departments not submitting indirect cost rate proposals are not eligible to receive a distribution of excess recoveries from the OMB. We found six of seven participating departments, that were required to submit a proposal, did not submit one and therefore should not have received distributions of fiscal year 2016 recoveries in fiscal year 2017 totaling \$6.8 million.

The circular states that any requests to exclude the charging of indirect costs, referred to as waivers, be requested in writing from the OMB every year. We found two outdated waivers from 2009 and 2015. Outdated waivers may allow participating departments to improperly retain recoveries since federal, non-state, and fee-supported awards can vary from year to year. We interviewed a participating department that did not remit indirect recoveries for fiscal years 2014 through 2017 and noted that it did not have a waiver and was not aware of the SWCAP.

We also noted Circular 96-16-OMB references Federal Circular A-87, which was replaced by Title 2, Part 200 of the Code of Federal Regulations.

### **Recommendation**

We recommend the Department of the Treasury implement procedures to verify the accuracy of recovery amounts. Utilization of available tools, such as the indirect cost rate proposals and support for the amounts transferred to the OMB, may be useful in determining the amount that

should have been recovered and if the amounts transferred are accurate. In addition, longstanding waivers should be reviewed periodically to ensure they are still relevant. We also recommend the OMB update its circular to reference the current federal guidance.





State of New Jersey

OFFICE OF THE STATE TREASURER

PO Box 002

TRENTON, NJ 08625-0002

CHRIS CHRISTIE  
Governor

KIM GUADAGNO  
Lt. Governor

FORD M. SCUDDER  
State Treasurer

December 7, 2017

Mr. Stephen M. Eells, State Auditor  
Office of Legislative Services  
Office of the State Auditor  
P.O. Box 067  
Trenton, NJ 08625-0067

Dear Mr. Eells:

This letter is in response to your correspondence dated November 20, 2017 regarding the Office of Legislative Services audit report of the Department of the Treasury, Office of Management and Budget (OMB), Statewide Cost Allocation Plan. Below you will find the Department of the Treasury's response.

***Indirect Cost Recovery Oversight***

**OLS Finding:**

**Enhanced oversight may increase total indirect cost recoveries.**

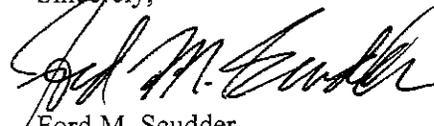
**Recommendation:**

We recommend the Department of the Treasury implement procedures to verify the accuracy of recovery amounts. Utilization of available tools, such as the indirect cost rate proposals and support for the amounts transferred to the OMB, may be useful in determining the amount that should have been recovered and if the amounts transferred are accurate. In addition, longstanding waivers should be reviewed periodically to ensure they are still relevant. We also recommend the OMB update its circular to reference the current federal guidance.

**Treasury Response:**

In the years following the release of the 1996 circular letter (96-16 OMB), OMB has directed state departments to keep their approved indirect cost rate proposals on file with submission only upon OMB request. The circular letter guidance will be updated to more accurately reflect current OMB policy. OMB will also utilize available resources to verify the accuracy of recovery amounts at the departments, and to determine if annual waivers are applicable.

Sincerely,

  
Ford M. Scudder  
State Treasurer

c: John Termyna, Assistant State Auditor  
David Ridolfino, Acting Director OMB  
Michael Griffin, Associate Director, OMB