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

For Fiscal Year Ended June 30, 2001

Richard L. Fair
State Auditor
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The Honorable James E. McGreevey  
Governor of New Jersey

The Honorable John O. Bennett  
President of the Senate

The Honorable Richard J. Codey  
President of the Senate

The Honorable Albio Sires  
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, 2001 and have issued our report thereon dated November 26, 2001. 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 Compliance and on Internal Control over Financial Reporting 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.

Thomas R. Meseroll  
Quality Assurance Administrator  
June 21, 2002
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the general purpose financial statements of the State of New Jersey as of and for the year ended June 30, 2001 and have issued our report thereon dated November 26, 2001. We did not audit the financial statements of the Component Units - Authorities and College and University Funds. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts included for the Component Units - Authorities and College and University Funds, is based upon the reports of the other auditors. Our report contained herein on compliance and internal
control over financial reporting excludes these Component Units - Authorities and College and University Funds. As disclosed in Note 2A to the general purpose financial statements, the State of New Jersey adopted accounting principles changing the recognition of certain revenues previously deferred and changed its method of expenditure recognition for certain liabilities. 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.

**Compliance**

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

**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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of New Jersey’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We noted a reportable condition in which the system used to account for fixed asset transactions was not functioning as intended. Details are described in the finding and recommendation section of this report.

A material weakness is a 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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.
This report is intended solely for the information and use of management of the State of New Jersey, the legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these parties.

Thomas R. Meseroll
Quality Assurance Administrator
November 26, 2001
STATE OF NEW JERSEY
INTERNAL CONTROL AND COMPLIANCE
FINDINGS AND RECOMMENDATIONS
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, 2001 and have issued our report thereon dated November 26, 2001. Our audit included a review of the internal control over financial reporting and compliance to laws, regulations, contracts and grants. During our test of internal control over financial reporting, we noted a reportable condition that should be addressed by management.

**Fixed Asset Accounting System Controls**

In conjunction with our audit of the Comprehensive Annual Financial Report for the year ended June 30, 2001, we documented several internal control weaknesses relating to the recording of account activity within the General Fixed Asset Account Group (GFAAG). System weaknesses include asset data being changed or deleted by state agencies without the approval or knowledge of the Office of Management and Budget (OMB), incomplete inclusion of all qualifying capital lease transactions, and the lack of agreement between asset identification data within the system. Although procedures exist for periodic reconciliation of agency fixed asset data to the Revised Fixed Assets System, many agencies are not adhering to these procedures.

In accordance with Department of Treasury procedures, OMB is required to maintain a standardized fixed asset reporting system. Based upon our audit, adjustments totaling $56.7 million were made to the asset records. In addition, another $12.3 million of adjustments were proposed but not booked due to the lack of complete data on these assets which are being researched by OMB. The automated system used to track fixed asset transactions does not function as intended. This necessitates constant manual adjustment which, when not adequately disclosed and monitored, can render the system records inaccurate and confusing.

We recommend the Department of the Treasury, Office of Management and Budget address the control weaknesses noted concerning the fixed asset accounting system to ensure that capital assets are accurately recorded in the financial statements.

The Department of the Treasury, Office of Management and Budget’s response to our finding and recommendation is attached.
June 10, 2002

Mr. Richard L. Fair
State Auditor
Office of Legislative Services
125 South Warren Street
P.O. Box 067
Trenton, NJ 08625-0067

Dear Mr. Fair:

I have reviewed the findings and recommendations related to your audit of the State’s 2001 Comprehensive Annual Financial Report. The Office of Management and Budget (OMB) has addressed those items relative to the fixed asset accounting system controls as noted below:

Finding

The ability of State agencies to change asset data without the prior approval of OMB.

Response

This problem refers mainly to the fact that agencies were utilizing improper functions for recording retirements and certain other activities resulting in the complete removal of certain asset records. OMB has removed agency access to those functions.

Finding

Incomplete inclusion of all qualifying capital lease transactions.

Response

Certain qualifying capital lease transactions, which were entered into the system, were being omitted from system reports of capital leases as a result of errors in technical indicators in the system. The errors in technical indicators have been corrected to avoid this situation in the future. The $56.7 million in audit adjustments cited by State Auditing were related to this problem and were recorded by Financial Reporting.
Finding

Lack of agreement between asset identification data within the system.

Response

OMB has identified a problem concerning "category and prefix" codes which has resulted in identification problems within the system. OMB is working with the Treasury Management Systems group (TMIS) to address the problem and make the necessary programming changes. These changes will be in place before the June 30, 2002, fixed asset data is completed.

Finding

The agencies are not adhering to existing procedures that require the periodic reconciliation of agency fixed asset data to the Fixed Asset Accounting System.

Response

OMB has prepared a letter to all agencies reminding them of the requirements of Circular Letter No. 01-07-OMB which requires such reconciliation. OMB will monitor agency adherence to the Circular letter.

Finding

$12.3 million of proposed adjustments were not booked due to incomplete data on these assets.

Response

OMB is monitoring input of these particular items for which complete data has been obtained. All items have been entered into the Fixed Asset System.

Finding

The automated system used to track fixed asset transactions does not function as intended. This necessitates constant manual adjustments.

Response

Financial Reporting staff is currently working with programming staff of TMIS to identify and correct technical deficiencies in the system. This will minimize the need for manual adjustments and provide the means to define discrepancy reports that will identify inconsistent data within the system.
OMB will continue to monitor the system controls of the Fixed Asset Accounting System to assure the timely and accurate recording of fixed assets.

Sincerely,

Charlene M. Holzbaur
State Comptroller