State of New Jersey  
Report on Compliance and Internal Control  
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, 1999 and have issued our report thereon dated November 29, 1999. 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.
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  

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, 1999 and have issued our report thereon dated November 29, 1999. 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. We conducted our audit in accordance with generally accepted auditing standards 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 financial statements are free of material misstatement, we performed tests of the state’s 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 general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. 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’s ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. These matters are discussed in detail in the finding and recommendations 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 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 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 also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted another matter involving the internal control over financial reporting that we have reported to the management of the State of New Jersey in a separate letter dated November 29, 1999.

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 parties.

Richard L. Fair
State Auditor
November 29, 1999
SUMMARY

We have audited the general purpose financial statements of the State of New Jersey as of and for the year ended June 30, 1999 and have issued our report thereon dated November 29, 1999. Our audit included a review of the internal control over financial reporting and compliance to laws, regulations, contacts and grants. During our test of internal control over financial reporting, we noted reportable conditions that should be addressed by management.

Unemployment and Disability Fund Revenues and Receivables

The Department of Labor installed a new computer system during fiscal year 1999. The system records payments from employers, maintains accounts receivable balances, and generates billings to employers for unpaid employment taxes. At the close of fiscal year 1999, the system was not fully functional. As a result, the department’s detailed accounts receivable records could not be reconciled to the accounts receivable reported in the 1999 CAFR.

We recommend the Department of Labor complete the installation of its new computer system.

Agency Response: The Department of Labor was in the process of installing a new system in 1999, which was not complete at June 30, 1999, and therefore could not have been fully functional at the time. We are currently working with the vendor, Treasury's Office of Information Technology, and the department's Division of Information Technology, in order to complete the installation of the new system.

Revenue Distributions

During fiscal year 1999, the Division of Revenue initiated the use of a combined form (NJ-927) which requires employers to file Gross Income Tax withholdings, Unemployment, Disability, Workforce Development, and Health Care Subsidy taxes on one form. Our review of the processing of the NJ-927 forms disclosed that the system did not have sufficient edits to ensure that the information forwarded to the Division of Taxation and the Department of Labor were free of errors. Such errors could affect the accuracy of the accounts receivable for the aforementioned taxes.

We recommend the Division of Revenue establish the necessary edits to ensure that the information forwarded to the Division of Taxation and the Department of Labor is accurate and free of errors.

Agency Response: The Division of Revenue has instituted four edits in calendar year 1999 and four additional edits in calendar year 2000. These edits are written to provide better accounting, allocate payments more efficiently, correct common taxpayer errors, and improve processing speed.
One specific edit that was implemented allows the system to compare the payment received to the UI/DI liability on the NJ-927. If the payment is within five dollars of the UI/DI liability, the Department of Labor will receive the entire amount. This edit was created in response to those employers who filed their GIT liability by electronic means while filing UI/DI by check. In this way, the Division of Revenue is now more responsive to the intent of the employer.

The improved processing also reduced the need for the Department of Labor and the Division of Taxation to contact the taxpayer for information that may have already been provided.