New Jersey State Legislature
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Office of the State Auditor

Department of Health and Senior Services
Selected Programs

July 1, 1997 to June 30, 1999

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State Auditor
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

Enclosed is our report on the audit of the Department of Health and Senior Services, Selected Programs for the period July 1, 1997 to June 30, 1999.

If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
September 14, 1999
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Department of Health and Senior Services
Selected Programs

Scope

We have completed an audit of Department of Health and Senior Services, Selected Programs for the period July 1, 1997 to June 30, 1999. The Selected Programs included in our audit were:

- Office of Vital Statistics and Registration
- Division of Family Health Services
- Division of Epidemiology, Environmental and Occupational Health
- Division of Addiction Services
- Division of AIDS Prevention and Control
- Division of Public Health and Environmental Laboratories
- Division of Long Term Care Systems Development and Quality
- Division of Health Care Systems Analysis
- Division of Management and Administration.

Our audit included financial activities accounted for in the state’s General Fund, the Casino Revenue Fund, the Alcohol Education, Rehabilitation and Enforcement Fund, the Health Care Subsidy Fund, the Catastrophic Illness in Children Relief Fund and the Emergency Medical Technician Training Fund. Total expenditures of the selected programs during the 24 month audit period were $1.5 billion. The prime responsibility of the Department of Health and Senior Services, Selected Programs is promoting public health. Revenues of the Selected Programs totaled $600 million during our audit period and the major component of revenue was federal grants.
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, 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.

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 internal controls.

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. Sample populations were stratified and large dollar transactions in five selected counties, Burlington, Essex, Mercer, Monmouth and Ocean, were tested. Other transactions were randomly selected.
To ascertain the status of findings included in our prior report, 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 recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses meriting management’s attention. We also found that the agency has resolved the significant issues noted in our prior report.
The implementation of stronger internal controls over payroll would reduce the risk of loss or misuse of funds.

Internal Controls

Management is responsible for establishing internal controls to safeguard assets against loss or irregularity. Implementation of a structure which includes the proper segregation of duties is necessary to lower the risk that errors or improprieties could occur with little chance of detection. During our review, we found that the person who receives the approved payroll certification is the same person responsible for receiving payroll checks prior to distribution. This individual also has the authority to delete persons from the Department of Personnel’s Management Information System (PMIS). This lack of segregation of duties presents a potential for loss where an authorized check could be generated and removed prior to distribution without being detected.

Recommendation

We recommend that management strengthen internal controls by ensuring that the check distribution be performed by employees not involved in payroll preparation. Furthermore, employees involved in payroll preparation should not have the ability to add or delete employees on PMIS.

Auditee’s Response

The following modifications to the payroll process will be implemented:

After the payrolls are prepared, as usual, they will be forwarded to the Department Approval Officer for review and signature. However, instead of returning the payrolls to the Payroll Supervisor to be forwarded to Centralized Payroll, the Approval Officer will forward them directly to Treasury, Centralized Payroll.

It should be noted that payrolls are driven by the Department of Personnel TALRS system, which is decentralized throughout the Department. Entries are made by timekeepers located at the Program level. If the pay time for an employee is changed by a Payroll staff person from, for example, five (5) days per pay to eight (8) days, the Payroll would not agree with the TALRS entry on the TALRS verification report. The TALRS system serves as an internal control to the Payroll process.
Equipment Inventory

During our review, the department purchased $4.5 million in computer equipment. Treasury Circular Letter 91-32 requires an agency to establish and maintain an equipment inventory. We found that the department’s fixed asset inventory system does not provide a trail from the purchase order to the location or assignee of the asset. In addition, some divisions have not performed the required annual physical inventory of the equipment. As a result, we were unable to verify if all purchases were entered on the fixed asset record or to physically locate these assets.

Recommendation

We recommend that management strengthen internal controls by complying with Circular Letter 91-32.

Auditee’s Response

The Department has strengthened its internal controls to comply with Treasury Circular Letter 91-32. In March, 1999, a new employee was hired in Financial Services to eliminate the backlog in the equipment inventory. The Department has also reinstated its quarterly physical inventory reconciliation process for all equipment in the Department.