Department of Human Services
Division of Management and Budget and
the Division of the Deaf and Hard of
Hearing

July 1, 2000 to November 30, 2001

Richard L. Fair
State Auditor
Enclosed is our report on the audit of the Department of Human Services, Division of Management and Budget and the Division of the Deaf and Hard of Hearing for the period July 1, 2000 to November 30, 2001. If you would like a personal briefing, please call me at (609) 292-3700.

February 6, 2002
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Department of Human Services  
Division of Management and Budget and the  
Division of the Deaf and Hard of Hearing

Scope

We have completed an audit of the Department of Human Services, Division of Management and Budget and the Division of the Deaf and Hard of Hearing for the period July 1, 2000 through November 30, 2001. Our audit included financial activities accounted for in the state’s General Fund, the Catastrophic Illness in Children Relief Fund and the Institutions Construction Fund.

Annual expenditures of the agencies were $102 million. Annual revenues were $4 billion which consisted mainly of all federal revenues collected for the entire department. The prime responsibility of the Division of Management and Budget is to develop and update annually an operating plan for the department and to effect, implement and administer program allocations which carry out this plan. The prime responsibility of the Division of the Deaf and Hard of Hearing is to act as an advocate for New Jersey’s deaf and hearing impaired population.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the agencies' 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, 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 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 transactions were judgmentally selected for testing.

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 agencies' programs, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and cost savings meriting management’s attention. We also found that the agency has resolved the significant issues noted in our prior report, except for the matter related to financial transactions approval. This issue has been updated and restated in our current report.
Accounting system security can be strengthened.

System Security

Treasury regulations have established system controls over the approval of accounting transactions. We noted the following security weaknesses over the processing of financial transactions in the Division of Management and Budget. These weaknesses increase the risk of an unauthorized transaction occurring.

Transactions were processed in the state accounting system (NJCFS) using an approval officer’s logon ID even though the individual was not working on that day. Some approval officers provided their ID to others to avoid delays in processing while they were on leave.

Fourteen individuals have active access to the state accounting system even though they are no longer employed by the division. Four of these individuals have retired from state service. The division has no procedure in effect to deactivate logon IDs of former employees having access to the system.

Order entry and payment approval were applied by the same person for 5 of 29 tested disbursements. At the request of the division, these individuals have been granted the highest processing capability for the Management Acquisition Control System - Enhanced (MACS-E) by the Purchase Bureau. Although there are 14 individuals in the division with this approval level, some of them did not approve transactions during the period tested. Proper internal control dictates that the ordering and payment functions be segregated.

Recommendation

We recommend the division prohibit the posting of financial transactions by anyone other than the approval officer using a specific identification. The division should also remove terminated employees as NJCFS users more timely and should reduce the number of approval officers with the highest level of processing capability for MACS-E.
Auditee’s Response

The Department agrees with the recommendation that the division prohibit the posting of financial transactions by anyone other than the approval officer. The Department has already taken the necessary steps to modify the approval process by assigning alternate approval officers to approve transactions in the event the primary approval officer is not available. This is necessary, given the small size of our business office, and the need to maintain the processing of all financial transaction on a timely basis. I would also add that we have carefully reviewed those individuals that have full approval authorization of financial transactions and have limited their authorization capabilities where necessary. Those individuals that have left the division have also been removed from the NJCFS user file.

Purchasing new boilers will save money.

Boiler Rental

In December 1999, two boilers at the North Jersey Developmental Center failed and the department, with the assistance of consulting engineers, determined they should be replaced. This situation was deemed an emergency and the department was advised by the Department of the Treasury to rent replacement boilers until permanent ones could be purchased. The department is currently paying $23,500 a month for the rental. Replacement boilers could have been purchased at the time of the failure for an estimated $600,000 or $1,700 a month over a 30 year useful life. The department contends purchasing delays prevented them from installing permanent boilers.

Recommendation

We recommend the department, through Treasury, purchase and install new boilers expeditiously.
**Auditee’s Response**

The Department agrees with the recommendation to purchase and install new boilers expeditiously. In fact, the Department submitted a request more than a year ago to the Department of the Treasury’s Division of Property Management and Construction (DPMC) to purchase replacement boilers. The project is designated as M1325. We have been advised by DPMC that this project should be completed in the summer of 2002.