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

July 1, 1996 to January 30, 1998

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, 1996 to January 30, 1998.

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

Richard L. Fair
State Auditor
April 15, 1998
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Scope

We have completed an audit of the Department of Human Services, Division of Management and Budget and Division of the Deaf and Hard of Hearing for the period July 1, 1996 to January 30, 1998. Our audit included financial activities accounted for in the state’s General Fund, Catastrophic Illness in Children Relief Fund, Developmental Disabilities Waiting List Reduction Fund and the Human Services Facilities Construction Fund.

Total expenditures and revenues of the Division of Management and Budget and the Division of the Deaf and Hard of Hearing during the audit period were $137 million and $4.9 billion, respectively. 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 allocation decisions 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 Division of Management and Budget and the Division of the Deaf and Hard of Hearing, 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 Division of Management and Budget and the Division of the Deaf and Hard of Hearing. 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 the internal control structure.

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.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the Division of Management and Budget and the Division of the Deaf and Hard of Hearing 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 Division of Management and Budget and the Division of the Deaf and Hard of Hearing, were reasonable and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention. We also found the divisions have resolved the significant issues noted in our prior report.
Catastrophic Illness in Children Relief Fund

The family’s income should be verified using established state resources.

The Catastrophic Illness in Children Relief Fund was established by legislation to provide financial assistance for families whose children have experienced an illness or condition which is not otherwise covered by insurance, state or federal programs, or other sources. To be eligible the family must have incurred medical expenses, not otherwise covered, which exceed 15 percent of the family’s income and 20 percent of any income greater than $100,000. Management requires a copy of the federal 1040 tax return for proof of income. No independent verification of income is performed.

Recommendation

Management should independently verify the family’s income with established state resources.

Auditee’s Response

The State Office of the Commission agrees with the recommendation. Income has been verified in the program eligibility screening process through the review of various documents. This recommendation will be implemented as an additional process in the verification of income.

An agreement is pending with the Department of Labor for on-line verification of income information reported by employers. This resource was not available to this office prior to this audit. Additionally, tax records in the Division of Taxation may be obtained when appropriate and with required family authorization.
**Document Approval Authorizations**

The New Jersey Department of the Treasury, Office of Management and Budget, and Office of Telecommunications and Information Systems have established security password rules and regulations regarding the electronic approval of financial transactions by selected officials. Individuals are given approval authorization by level and type of document based upon their title and responsibilities. Employees are required to safeguard their password to prevent unauthorized use.

During our test of approvals we found documents with employees’ approvals even though they were not working that day. This was being done because management did not want to delay the processing of documents when employees were on leave. We did not find any wrongdoings regarding these employees or documents, but the potential exists because of this security breech.

**Recommendation**

We recommend that Central Office take the appropriate action to correct this security breech and develop procedures to deter this from occurring in the future.

**Auditee’s Response**

The Division of Management and Budget is in compliance with the regulations of the Department of Treasury in regard to the electronic approval of all financial transactions. The Division’s Office of Business and Procurement (OBP) is responsible for reviewing and approving all financial transactions on the NJCFS/MACS-E systems. Because OBP has a limited number of administrative staff that have the authority to approve documents electronically, it is occasionally necessary that individual staff apply more than one approval on the Treasury system. This is done only to process documents in a timely and efficient manner when staff are on leave. However, the OBP maintains the necessary internal controls, including the original approval of all documents by the Director, OBP as well as a hard copy and supporting justification for each document processed. These measures ensure that...
all transactions comply with all applicable accounting and purchasing regulations and that the OBP maintains an accurate accounting of all approved documents.

Please note that the Division will continue to examine alternative approval methods to ensure that all documents are processed in accordance with the Treasury security regulations. The OBP will continue to safeguard the Division’s assets by requiring the highest level of authorization and security procedures.

### Human Services Facilities Construction Fund

A $10,000 expenditure of the Human Services Facilities Construction Fund did not meet the fund criteria.

**Recommendation**

We recommend that Central Office reimburse the fund for the amount of this expenditure and a copy of the study be obtained from the vendor.

**Auditee’s Response**

While we concur that formal purchasing procedures were not followed, we do not agree that the expenditure from this fund source was improper. The account used for payment was a solid waste management account (539-054-7500-001-LLL-7110). At the time the study was authorized we believed that the nature of
the potential recycling violation was such that an expeditious response was necessary. Fortunately, as a result of the study, it was found that a fineable violation did not exist.

We were unable to produce a copy of the recycling study when requested by the auditors. The report was being used at that time as a template for an internal analysis of their recyclable materials process. A copy of this report is provided to the auditors with our response.