The Honorable Richard J. Codey
Acting Governor of New Jersey

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

Enclosed is our report on the audit of the Department of Human Services, Developmental Disabilities Council for the period July 1, 2003 to June 30, 2004. If you would like a personal briefing, please call me at (609) 292-3700.

December 15, 2004
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Department of Human Services
Developmental Disabilities Council

Scope

We have completed an audit of the Department of Human Services (DHS), Developmental Disabilities Council (DDC) for the period July 1, 2003 to June 30, 2004. Our audit included financial activities accounted for in the state’s General Fund.

Per its bylaws, the council shall consist of a minimum of 25, with a maximum of 30, voting members. It is charged with monitoring the state’s systems of services and support for people with developmental disabilities and their families, and to affect positive changes in those systems. The Council employs 16 employees, and in 2004 received $1.5 million and $300,000 in federal and state funds, respectively. Expenditures recorded during our audit period included $875,000 for salaries and $800,000 in other program related expenses.

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 any significant conditions noted in our prior report, dated July 26, 2000.

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 populations were sorted and transactions were judgementally 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 agency's programs, were reasonable, and were recorded properly in the accounting systems. We also found that the agency has resolved some of the significant issues noted in our prior report. However, internal controls, compensatory time, and purchasing weaknesses noted in our prior report have not been adequately addressed and are repeated as findings in this report.
The majority of disbursement documents we tested did not comply with state or council regulations.

Internal Controls and Purchasing Regulations

It is management’s responsibility to establish and maintain an adequate system of internal controls. Good internal controls are essential in achieving the proper conduct of government business with full accountability for the resources made available. Controls also facilitate the achievement of management objectives by serving as a system of checks and balances which guard against undesired actions occurring. Our review found that management does not enforce established controls designed to prevent and detect errors or irregularities. As a result, receipts or supporting documentation are not always requested, agency and state purchasing regulations are not always followed, and proper approvals are not always obtained prior to processing disbursements. The Council operates under a special exemption from the Department of the Treasury which allows one person to electronically prepare and approve payments through the state’s accounting system (NJCFS). The compensating control agreed upon is that a required supervisor’s signature on the payment voucher would authorize disbursement. Our audit disclosed this control is not effective as it has become management’s practice to order and pay for goods before purchase orders are issued and supervisory approval has been obtained. In addition, management routinely does not comply with state purchase bureau and Department of the Treasury procedures when selecting vendors, issuing contracts, and by supporting payments with insufficient documentation. Overall, 52 percent of the documents tested did not comply with state or agency procedures and 43 percent of the payments had either insufficient or no supporting documentation.

Examples of the types of purchasing exceptions noted during our testing follow.
• A contracted vendor was paid $15,104 with no supporting documentation for services. The designated project manager had neither approved the invoice nor obtained the required receipts.

• An Information Technology consultant has continued to be awarded an annual no-bid contract of $49,500 for routine maintenance in violation of state requirements that competitive bids be solicited. The work performed by the vendor is mostly server maintenance, a generic description of routine maintenance available both through competitive bidding as well as in-house through DHS. Management has not ascertained whether these services could be obtained at a lower cost.

• A contracted vendor was paid $11,000 for the quarter ending June 2004 without documentation of cost summaries and status reports as required by the contract. The project manager did not review or approve the payment and could not explain the absence of supporting documentation.

• The Educational Support Fund (ESF) is a $20,000 individual grant/scholarship program whose funds are specifically restricted to and earmarked for individuals and their families to attend various disability-related seminars. This account is managed by a single employee who has discretionary authority to disburse funds to recipients who solicit support through an application. Our review disclosed that $10,000 from this account was used to fund an organization to attend a conference in California. This exception made to the account’s guidelines was not approved by the Council.

• A retired employee was rehired at a rate of $30 per hour without a valid contract and her earnings of $3,700 were not reported to the Department of the Treasury for tax purposes.
• A single payment of $15,384 was approved; however, documentation for only $2,180 was presented to the fiscal officer. The needed documentation was subsequently obtained by management.

**Recommendation**

We recommend that management enforce and monitor its system of controls that include proper approval, supporting documentation, and compliance to procurement guidelines for all disbursements.

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**Payroll and Personnel**

Time keeping and leave time procedures require supervisory review and certification of all employee time worked and leave time earned and taken. Our review noted that 355 of the 425 time sheets tested lacked the proper supervisory signature and certification.

The Division of Developmental Disabilities (DDD) performs most of the payroll and personnel functions for the Council. The DDD had been entering the Council employees’ leave time into TALRS (Time and Leave Record System), but ceased doing so in July 2003. Since July 2003, leave time records are only maintained manually by a clerk at the Council, which increases the risk of human error. Our review of the leave records noted 25 instances where leave time was not accurately posted to the Leave Time Exception Report, and 20 instances where leave time balances were not accurately calculated or carried forward. In addition, we noted that the clerk maintains her own leave records, with no independent review.

The Council follows DDD policy which states that overtime or compensatory time is to be preapproved and each instance certified on the employee’s time.
sheet by management’s initials. Our review of compensatory time noted the Council does not enforce procedures requiring overtime (cash or compensatory to be preapproved and certified on each time sheet.

We also noted that an employee went on disability twice during our audit period and in neither case did she exhaust her accumulated sick leave time, as required. Additionally, because she didn’t use sick leave and sick time does not accrue while out on disability, her sick leave balance is overstated. Upon returning to work on June 21, 2004, her balance according to the manual records was 120 hours, while it should be 57 hours.

**Recommendation**

We recommend that management enforce and monitor its controls over supervisory review and certification of time sheet data. We also recommend that management avail itself of DDD automated leave record system (TALRS) services, and review and adjust all leave record errors noted.

Internal Controls and Purchasing Regulations

Due to a lack of an internal procedure manual for staff use, practices of retention of documentation of records of purchases has been inconsistent. Development of a procedure manual for all staff is underway with an estimated completion time of January 2005. The fiscal officer now holds receipts and supporting documentation for all purchases and no invoices are approved or reimbursed until all documentation is attached to the invoice. Invoices now go through three levels of review before being paid to ensure accuracy of information and all the appropriate documentation is attached. Staff has received training and ongoing support to ensure consistency and proper adherence to the procedure.

The process of paying for goods prior to issuance of purchase orders has been discontinued.

All state purchase bureau and Department of Treasury procedures are now part of the employee manual and website addresses are available for all staff to view if there are questions.

Specific items:

Contracted vendor paid $15,104 - All receipts were gathered and reconciled and attached to the invoice.

Information Technology consultant - This consultant is in its third contract year. The Council initially sole-source bid this contract due to the specific disability related experience of the vendor. We agree that this is no longer necessary and will bid for this service upon expiration of the contract in 0.XX

Contracted vendor paid $11,000 - This contract involves the publication of several newsletters for the Council. The documentation required is the actual newsletter, which were in our possession, but not attached to the invoice. This has been corrected.

The Education Support Fund - The Council approved an expenditure of up to $20,000 for this purpose at its January 22, 2004 meeting. This Education Support Fund was under-spent and selected for the payment of this activity since it closely aligned with the goals and objectives set forth for this fund.

Retired employee - This was an oversight since the former employee was already in the payment system a W-9 was not completed. This has been corrected.

A single payment of $15,384 - This documentation was in possession of the event coordinator who was not available on the date it was requested by the auditor. A copy was immediately secured from the vendor.

Recommendation - As stated above the internal procedure manual will be completed by January 2005 and be made available to each employee. All proper approvals and documentation needed for compliance to procurement guidelines will be spelled out in detail with examples.
Payroll and Personnel

Specific Items:

Proper supervisory signature and certification - Due to extended leave of the Director and change of staff responsible for this function the proper signatures were not always obtained. All past timesheets have been audited, signed and reconciled with DDD, which enters the information into TALARS.

DDD - Although the timesheets were delivered to DDD each pay period, due to staffing issues the information was not entered. This has been corrected and all back timesheets have been entered into the TALARS system. To ensure future accuracy, the Council will acquire access to the TALARS system and input the information directly. DDD will continue to retain original copies of timesheets. The Fiscal Officer will enter the payroll clerk's time.

Comp time - We were not aware of this DDD policy. All comp time is now pre-approved and certified on the timesheet by the Deputy Director.

Disability leave - According to DDD the TALARS system would have picked up this error, but since the information was not entered it did not. Since the council will enter its own information, this should not reoccur. The employee's time has been adjusted accordingly.

Recommendation - As stated above, the council will avail itself of the TALARS system. All time sheets are now signed, and up to date in the system. All time sheets are reviewed by the Deputy Director for accuracy and then signed by the Director before information is put into the system.