Office of the State Auditor

Audit Report

Department of Labor

Economic Assistance and Security

July 1, 1994 to June 30, 1996
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We have completed an audit of the Department of Labor - Economic Assistance and Security for the period July 1, 1994 to June 30, 1996.

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. However, we did note an area where improvement is needed. Management should continue to seek litigation rights from the Attorney General to facilitate obtaining an alternate means to address the $321,000 of delinquent Second Injury Fund overpayments which have not been acted upon since as far back as 1987. Details of the finding and recommendation are included in our 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.

Richard L. Fair
State Auditor
November 19, 1996
Department of Labor
Economic Assistance and Security

Scope

We have completed an audit of the Department of Labor - Economic Security and Assistance for the period July 1, 1994 to June 30, 1996. The programs include the Bureaus of State and Private Plans - Disability Insurance, the Divisions of Workers Compensation and Special Compensation and the administrative portions of the Divisions of Unemployment Insurance and Disability Determinations. Our audit included financial activities accounted for in the state's General Fund, the Second Injury Fund and the Uninsured Employers Fund.

Total audited expenditures of the programs during the 24 month audit period were $289 million. The prime responsibility of the Department of Labor - Economic Assistance and Security is the administration of the Unemployment and Disability Insurance and Workers Compensation programs, and Special Compensation Fund administration and benefits. Our audit did not include payroll expenditures of $210 million related to these programs. Payroll expenditures were included in our audit of Economic Planning, Development and Regulation Programs.

Revenues of the programs totaled $526 million including federal revenues of $222 million during our audit period. Excluding federal funds, the Special Compensation Fund and the Uninsured Employers Fund accounted for 88 percent and 85 percent of the total revenue collected in 1995 and 1996 through June 28, 1996 respectively.

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 issues noted in our prior reports.

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 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. Expenditure transactions were stratified and large dollar transactions were examined. Smaller dollar transactions were randomly selected. Other transactions were examined based on auditor judgment.

To ascertain the status of findings included in our prior reports, 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 properly recorded in the accounting systems. In making this determination, we noted a matter meritng management's attention.

We also found that the agency has resolved the issues noted in our prior report.

Details of our finding and recommendation follow.
Second Injury Fund - Uncollected Accounts

When a claimant receiving benefits from the Second Injury Fund dies and the Division of Special Compensation is not notified of the death, checks continue to be sent to the claimant. If the family cashes these checks, the money is due back to the state. After the Second Injury Fund makes an effort to collect all overpayments, the receivable (if greater than $750) is forwarded to the Attorney General. The fund's management is authorized to take no further action as the Office of the Attorney General is deemed the exclusive agency to effect collection through litigation. However, the Office of the Attorney General currently has not acted upon 69 cases totaling $321,000 dating back to 1987. The fund's management has, since August 1994, sought authority to engage in alternative methods of collection such as private collection agencies.

We recommend that the Division of Special Compensation be granted leave to engage in other means of collecting outstanding receivables including the use of private collection agencies.
DEPARTMENTAL RESPONSE

November 12, 1996

Richard L. Fair, State Auditor
Office of Legislative Services
Office of the State Auditor
125 South Warren Street
CN 067
Trenton, New Jersey 08625-0067

Dear Mr. Fair:

Thank you for the opportunity to comment on your audit report of the Department of Labor, Economic Assistance and Security covering the period July 1, 1994 to June 30, 1996. I was pleased that the audit found our financial transactions to be related to the department's programs, reasonable and properly recorded in our accounting system.

Your report does highlight an area that we have pursued with the Office of the Attorney General. This involved seeking the authority to engage in alternative methods of collecting Second Injury Fund receivables.

I appreciate the important work done by your staff. Should you need further input from the department, please contact James M. King, Director of Internal Audit, at 292-1885.

Sincerely,

COMMISSIONER