New Jersey State Legislature
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Department of Law and Public Safety
Division of Consumer Affairs

July 1, 1996 to January 20, 1998

Richard L. Fair
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 Law and Public Safety, Division of Consumer Affairs for the period July 1, 1996 to January 20, 1998.

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

Richard L. Fair  
State Auditor  
March 23, 1998
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Department of Law and Public Safety  
Division of Consumer Affairs

Scope

We have completed an audit of the Department of Law and Public Safety, Division of Consumer Affairs for the period July 1, 1996 to January 20, 1998.

Our audit included financial activities accounted for in the state’s General Fund. Total expenditures of the division during the audit period were $58.9 million. The prime responsibility of the division is to assure fair, equitable and competent treatment of the consumer in practices relating to the acquisition of goods and services, and the use of professional and occupational boards within the state. The division generated revenue from professional licenses, registration, examination and other fees, and from fines and penalties totaling $72.5 million.

In addition, our audit included assessments of $1.1 million deposited to the New Jersey Automobile Insurance Guaranty Fund.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the division’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 division. 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 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.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the division 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’s programs, 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 that the division has resolved the significant issues noted in our prior report except for the matter related to the allocation of fringe benefits to the professional boards. This issue has been updated and restated in our current report.
Administrative salary fringe benefits should be allocated as a cost of the professional boards.

Cost Allocation Plan

The Division of Consumer Affairs implemented a cost allocation plan (CAP) which allocates certain centralized costs to the professional boards which have benefited from their activities, such as centralized licensing, the Bureau of Enforcement and administrative units. Our review of the CAP disclosed that the majority of our prior report issues have been addressed. However, the issue with financial impact regarding charging fringe benefits for the director’s office and the Office of Administration’s salaries and allocating them to the boards was not implemented. These salaries are charged to the accounts which are not directly charged for fringe benefits by the Treasury and are not adjusted periodically by the division. The fringe benefit rate for fiscal year 1997 was 26.95 percent which translates to $895,000 not being charged to the professional boards. All costs of the board’s operations should be included in the CAP in order to provide a correct basis for establishing fee schedules and to assure that the state is properly reimbursed for its board related outlays.

Recommendation

We recommend that the division charge fringe benefits for the all salaries allocated by the cost allocation plan.

Auditee’s Response

The fringe benefit rate for FY98 is 20.95% which will amount to $750,000 attributable to the Director’s Office and Administration Office to be charged under the cost allocation plan. It would not be appropriate to move the positions in these offices into accounts where fringe benefits are directly charged. Instead, the Division of Consumer Affairs will ask the Office of Management and Budget to establish a payment schedule to charge the fringe benefits in these areas to the boards. The payment of fringe benefits for the Director’s Office and Administration Office will impact the fee structure of certain licensing boards.
Revenue procedures need to be enhanced in regards to segregation of duties and more timely deposit of receipts.

Revenue Collection Procedures

In 25 of the 28 professional boards, there was a lack of segregation of duties for handling receipts in the mail room, cashier and accounting functions. The number of employees at the various boards range from one to thirty-one, with nine boards employing a staff of two or less. While a proper segregation of these duties is usually impractical due to the limited number of employees at the boards, these functions could be efficiently segregated through centralization of the revenue collection function. In addition, we noted that the professional boards were not in compliance with Treasury Circular Letter 94-24 which requires that checks be deposited the same day as received. In our current review of 28 boards’ deposits for one day totaling approximately $121,000, we noted that deposits totaling $39,000 for seven boards were made between one and twenty-three days late. Although the dollar value of undeposited monies was not a material amount, adhering to the directive would reduce the risk that monies could be lost or misappropriated.

Recommendation

We recommend the division centralize the revenue collection functions of the professional boards to improve internal controls over these operations. In addition, the professional boards should comply with Treasury Circular Letter 94-24 by depositing receipts on the same day they are received.

Auditee’s Response

The Division of Consumer Affairs has recently purchased a new professional licensing system. This new system, which will be operational for all boards within 12 months, will require the establishment of a Cashier’s Office. The Cashier’s Office will be located within the Administration Office and, therefore, accomplish the segregation of duties and timely deposit of receipts as recommended in this finding.
Fixed Assets

The division should comply with Treasury Circular Letter 91-32 regarding the maintenance of fixed asset records.

The division maintains fixed asset records for 4,100 items of furniture and office equipment valued at $1.9 million. At October 1, 1997 there was an additional 663 computer related items of an undeterminable value. The computer inventory records did not record the cost, date of purchase, account charged upon purchase or the identifying tag number all of which is required by Treasury Circular Letter 91-32. Failure to maintain the required information increases the risk of assets being lost or stolen and not being detected.

Recommendation

We recommend the division include all information required by the Treasury Circular Letter 91-32 in its fixed asset inventory.

Auditee’s Response

The information required by Circular Letter 92-31 is available in the MIS office. The Division of Consumer Affairs acknowledges that this information is not in one report. The information listed in the finding must be accessed in two different places to be complete, however, access is easily accomplished and the records in combination contain all of the information required by Circular Letter 91-32. Based upon the audit recommendation, the Division will include price and date purchased on future reports.