Department of State
Selected Programs

July 1, 2003 to September 30, 2004
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 State, Selected Programs for the period July 1, 2003 to September 30, 2004. If you would like a personal briefing, please call me at (609) 292-3700.

January 3, 2005
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Department of State
Selected Programs

Scope
We have completed an audit of the Department of State, Selected Programs for the period July 1, 2003 through September 30, 2004. The selected programs included in our audit were the Division of Archives and Records Management, the Office of the Secretary of State, the Council on the Arts, the Division of State Museum, and the Historical Programs. Our audit included financial activities accounted for in the state’s General Fund, the Cultural Centers and Historic Preservation Fund, and the New Jersey Cultural Trust.

The prime purposes of these programs are to increase resources and public participation in the arts, to promote an interest in and an appreciation of New Jersey history, and to provide archive and record management services. Annual expenditures are $40 million. Annual revenues are $2.2 million with fees charged to state and local government agencies by the micrographics unit, and rental fees for usage of the War Memorial and the Patriots Theater representing the major components.

Objectives
The objectives of our audit were to determine whether financial transactions were related to the department’s programs, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of the 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 transactions. We also read the budget message, reviewed financial trends, and interviewed personnel to obtain an understanding of the programs, and the internal controls.

A nonstatistical sampling approach was used. Our samples of 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 judgmentally selected for testing.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the department and walked through the system to determine if the corrective action was effective.

Conclusions

We found that the transactions included in our testing were related to the programs, were reasonable, and were recorded properly in the accounting system. In making this determination, we noted certain internal control weaknesses meriting management’s attention. We also found that the agency has resolved the significant issues in our prior audit report, however, it has not yet established a “Friends of the War Memorial” fund to receive and increase funding of the War Memorial and Patriots Theater.
Management’s control procedures over grant monitoring, eligibility, and accountability should be strengthened.

Grants

During fiscal year 2004 the Department of State disbursed $28 million in grants to approximately 420 grantees. We identified an overall need to improve monitoring of the grant award and grantee expenditure review process to ensure that grants were awarded and spent in accordance with grant terms and objectives. We also identified documentation and program review issues with three of the grant programs. During fiscal year 2004 management established an internal audit function within the department’s Division of Administration to provide an independent review of grant program compliance and accountability issues. Presently the internal audit function is being performed by one individual and the review of grants for compliance and accountability issues are not up-to-date. Due to the untimeliness of the reviews, management cannot utilize the information in determining future grant awards, nor can it timely determine whether or not grant funds were properly disbursed by the grantees. Given the amount and nature of the grants being disbursed, management should reallocate resources to expand the internal audit unit. A properly staffed independent audit unit could effectively achieve management’s grant program objectives, perform special projects, and strengthen internal controls.

The Faith Based Initiative Program objective is to create greater access to funding and other resources for faith based organizations. During fiscal year 2004, the department disbursed $2.3 million to 65 organizations. In addition, federal funding of $1 million was disbursed to organizations to conduct intensive outreach to individuals whose Temporary Assistance to Needy Families (TANF) funding stopped. These grants are known as Post-TANF awards. Grant monitoring procedures include quarterly expenditure reports from the grantees, site visits by department personnel, and reviews of independent audit reports. Our audit noted that documentation was not on file to support visitations
by departmental staff, nor were independent audit reports on file. Management stated that monitoring procedures have decreased over the past year due to a decrease in personnel.

The Martin Luther King (MLK) Commemorative Commission provides grants ranging from $1,500 to $5,000 to non-profit organizations in New Jersey that promote the ideals, principles, and legacy of Dr. King. During fiscal year 2002 and 2003, the grant program disbursed $51,700 to 13 organizations and $35,000 to eight organizations, respectively. There were no grants awarded during fiscal year 2004. Management’s control procedures require grant applications be reviewed, scored, and processed by committee members or review boards. Our review of fiscal year 2002 and 2003 activity disclosed no evidence of this oversight. We also noted that once a grant is awarded and approved for funding, 75 percent of the grant amount is disbursed to the grantee. The remaining 25 percent is disbursed once the Commission receives the final report and original receipts. It was determined that five of the 13 grantees in fiscal year 2002 and one of the eight grantees in fiscal year 2003 did not submit support for their expenditures while still receiving their final grant payments.

The MLK Commemorative Commission also provides grants designed to help young people by fostering positive environments in their schools and communities. These grants, known as the V-Free Mini-Grant Program, have a maximum dollar amount of $3,000. During fiscal year 2004, $72,000 was awarded to 26 grantees. The grant committee, consisting of reviewers selected by the Director of the MLK Commemorative Commission, evaluates the applicants to determine certain criteria are met. Points are awarded based upon the criteria, and those with the highest scores receive grant funding. We reviewed 100 percent of the reviewers’ score sheets during fiscal year 2004. We noted that four applicants were in an approved grant status and then
later removed because the scores provided by the reviewers did not agree with the scores posted to the spreadsheet used to determine grant eligibility. One applicant was placed in grant status because the scores on the spreadsheet were greater than the reviewers’ original scores. We also noted discrepancies with five other applicants’ scores, however their grant status remained unchanged. We could not review the scores for one applicant because the file was missing. To ensure the integrity of the program, awards should be made based on established criteria as documented on the score sheets. All changes and corrections should be documented.

**Recommendation**

We recommend that the department expand the internal audit unit, require its grant monitoring procedures be followed, and formalize the MLK grant award procedures.

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**Microfilm Revolving Fund**

The Micrographics Unit, under the Division of Archives and Records Management (DARM), provides source-document microfilm and imaging services for state, county, and local government agencies on a charge-back basis as a revolving fund operation. Accounting for services in this way, allows costs to be appropriated and expended at the using agency. However, with the exception of limited services to local governments, the services are for state agencies. Hence, the state must bill and collect from itself.

Costs charged to the fund during fiscal year 2004 were $1.2 million. Revenues for the same period were $929,000, with $697,000 coming from state sources and $232,000 from local governments. A portion of the revenues are comprised of $101,000 in receivables, of which $60,000 is from state sources and $41,000 is from local governments. At the close
of fiscal year 2004, the revolving fund showed a cash deficit of $370,000. The deficit is the result of the outstanding accounts receivables, unrecoverable costs, and being six month behind in billing.

The Micrographics Unit is presently using antiquated and obsolete equipment resulting in an approximate two-year production backlog, which has caused microfilming contracts in excess of $1 million being awarded to private vendors. The combination of the fund operating at a cash deficit due to billing problems, production backlogs, and antiquated equipment restricting revenues and inflating costs, has hindered the unit’s ability to generate the finances needed to obtain newer and more efficient equipment which would allow the unit to significantly increase production while lowering costs. The operation of the unit as a state appropriation would eliminate billing and collections from state sources and allow for the refocusing of resources from accounting to production, thus enabling it to become more efficient and effective, while remaining competitive with market prices.

In addition, one person is responsible for the billings of microfilm services and also the maintenance of the receivable records. That same employee makes adjustments to the billings and posts receipts. A mail log is not maintained. Strong internal controls necessitate a separation of duties over the billing and receipt functions. The use of a mail log by an employee independent of billing and collections, and the separation of duties over the billing and receipt functions will strengthen internal controls.

**Recommendation**

We recommend an appropriation be made directly to the micrographics unit rather than channeled through using agencies; thus allowing resources to be redirected from accounting to production. The Micrographics Unit should purchase more technologically advanced equipment, such as scanners and archive writers, in order to significantly increase production and lower costs, thus making it
more competitive with the private sector. In addition, management should maintain a mail log by an employee independent of billings and collections, and separate the billing and receipt functions.

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**Contract with the Marriott Hotel Services, Inc.**

Beginning April 1, 2002, the State of New Jersey entered into a three-year contract with the Marriott Hotel Services, Inc. (Marriott). The contract terms state that the Department of State will pay, every four weeks, any net operating loss incurred by the Marriott for the maintenance at the War Memorial and Patriots Theater (WMPT), plus a management fee of $15,385. Department records indicate that the Marriott has consistently operated at a net operating loss. Our review of the billings for net operating losses noted that needed information was not provided by the Marriott nor requested by management prior to paying net operating loss billings. The needed information deals with the handling of revenues paid to the state being reflected as costs in the net operating loss calculation, and disclosing all revenues and costs of the Marriott’s utilization of the War Memorial facilities.

**Recommendation**

We recommend that the department management obtain and review the needed information for past and future billings for net operating losses.

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**The War Memorial and Patriots Theater**

The War Memorial and Patriots Theater (WMPT) consists of a theater, ballroom, conference rooms, and administrative offices. It is funded by state appropriations and rental income for the majority of its operating costs. The goals of management are to expand the operations as a performance theater,
increase revenues, and reduce their reliance on state appropriations. During fiscal year 2004, the profitability of the War Memorial and Patriots Theater increased from the prior fiscal years. However, because of its status as a state organization, it still cannot accept funds from donations from private organizations and citizens that support the arts. Our prior audit dated November 15, 2001 noted that two peer theater facilities we contacted received between 20 and 40 percent of their funding from donations from government, private organizations and citizens that support the arts. We recommended that the department establish a “Friends of the War Memorial” fund to receive and increase funding. Currently, this fund is not in place.

**Recommendation**

We recommend that the department continue its efforts towards creating a fund which could accept donations from organizations and citizens who support the arts. This will assist management in achieving its objectives.
To: James Patterson  
Assistant State Auditor

From: Louis A. Bruni, Chief Financial Officer  
New Jersey Department of State

Date: December 27, 2004

Re: Department of State Response to OLS Audit Findings

Earlier this year, the Office of Legislative Services (OLS) conducted an audit of certain programs within the Department as part of a regular schedule of reviewing programs within the State. The Department thanks OLS for its service to the Department and submits the following responses to the items cited:

**Item #1: Microfilm Revolving Fund**

**Recommendation:** “We recommend an appropriation be made directly to the micrographics unit rather than channeled through using agencies: thus allowing resources to be redirected from accounting to production. The Micrographics Unit should purchase more technologically advanced equipment, such as scanners and archives writers, in order to significantly increase production and lower costs, thus making it more competitive with the private sector. In addition, management should maintain a mail log by an employee independent of billings and collections, and separate the billing and receipt functions.”

**Response:** The Department concurs with the citing made by OLS and has commenced working with the Office of Management and Budget (OMB) to fund the Microfilm program through the receipts of the Records Preservation Fund, established July, 2003, to offset the cost of this program beginning in fiscal year 2006. By utilizing funding from this Fund, the goal of providing a stable source of funding for the program will be achieved, thereby reducing billing procedures internally and creating statewide economies as we envision the elimination of inter-departmental billings for the work conducted by the unit. The Department does seek, however, the ability to continue to bill non State clients which will provide a continued source of funding to maintain and
upkeep the infrastructure of the Microfilm and Imaging units in the upcoming years, while its general operations are supported through the Records Preservation Fund. To that end, the Department will review its existing billing procedures and ensure that sufficient controls are in place to provide for the timely and accurate collection of revenues due for its services.

**Item #2: Contract with the Marriott Hotel Services Inc.**

**Recommendation:** “We recommend that the department management obtain and review the needed information for past and future billings for net operating losses.”

**Response:** The Department concurs with the findings made by OLS and has commenced a process whereby the Director of the War Memorial reviews the billings of the Marriott prior to their payment by the Department. The Director of the that Division is best suited to review these billings and their comments will be forwarded to the management of the Marriott for review. The Department wishes to note that the payments for the Marriott organization are capped at $800,000 in fiscal year 2004 and $600,000 in fiscal year 2005 respectively as the Department makes payment for Marriott services through a grant to the Marriott organization. The billing statements it produces provides support for the payments made to the Marriott. However, the Marriott cannot exceed its annual award. The review by the Director of the War Memorial will provide the necessary controls to prevent an acceleration of the payment awarded to the Marriott organization, however, sufficient internal controls are and have been in place to prevent the overpayment of the aggregate award to the Marriott.

**Item #3: The War Memorial and Patriots Theatre**

**Recommendation:** “We recommend that the department continue its efforts toward creating a fund which could accept donations from organizations and citizens who support the arts. This will assist management in achieving its objectives.”

**Response:** The Department was successful in creating a Friends of the Trenton War Memorial and Patriots Theatre in November, 2004, after the close of the period in review.

**Item #4: Grants**

**Recommendation:** “We recommend that the department expand the internal audit unit, require its grant monitoring procedures be followed, and formalize the MLK grant award procedures.

**Response:** The Department concurs with the findings made by OLS in this area. The majority of the Department’s work is in the area of granting dollars to our constituency. Grants account for the largest expenditure of the Department as a percentage basis of its annual budget. The Department will work with OMB to increase its Full Time Equivalency (FTE) allocation and seek additional personnel to better review and monitor
the grants it disburses to supplement the work it is already conducting in this area. The Department will work with the MLK Commission in formalizing its grant award procedures.

Cc:  Secretary Thomas  
     K. Kisko  
     E. Anderson