New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Department of the Treasury
Division of Administration

July 1, 1995 to December 15, 1997

Richard L. Fair
State Auditor
Enclosed is our report on the audit of the Department of the Treasury, Division of Administration for the period July 1, 1995 to December 15, 1997.

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

Peter M. Guilfoyle
Assistant State Auditor
January 16, 1998
# Table of Contents

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope</td>
<td>1</td>
</tr>
<tr>
<td>Objectives</td>
<td>1</td>
</tr>
<tr>
<td>Methodology</td>
<td>1</td>
</tr>
<tr>
<td>Conclusions</td>
<td>2</td>
</tr>
<tr>
<td><strong>Findings and Recommendations</strong></td>
<td></td>
</tr>
<tr>
<td>Internal Controls - Payroll</td>
<td>3</td>
</tr>
<tr>
<td>Duplicate Payments to Vendors</td>
<td>4</td>
</tr>
<tr>
<td>The Governor’s Council on Alcoholism and Drug Abuse</td>
<td></td>
</tr>
<tr>
<td>Revenue Processing</td>
<td>7</td>
</tr>
<tr>
<td>Appendix</td>
<td>9</td>
</tr>
</tbody>
</table>
Department of the Treasury  
Division of Administration

**Scope**

We have completed an audit of selected financial transactions processed by the Department of the Treasury, Division of Administration for the period July 1, 1995 through December 15, 1997. A detail description of the audit scope is presented in the appendix. Our audit included financial activities accounted for in the state’s General Fund.

Total expenditures of the agency within our scope were $436 million during fiscal year 1996 and $493 million during fiscal year 1997. The prime responsibility of the Department of the Treasury, Division of Administration is to provide department-wide support services. Revenues within our scope approximated $160 million annually. The major components of revenue were Office of Telecommunications and Information Systems and State Central Motor Pool charges collected from other state agencies by the division.

**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 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 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. Sample populations were stratified and transactions were judgmentally selected.

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. 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 agency has resolved the significant issues noted in our prior report.
Management is responsible for establishing internal controls that will safeguard assets from loss or irregularity. Our review of payroll procedures disclosed a weakness in internal controls in regards to the payroll preparation and subsequent pay check distribution. The individuals who prepare the payroll proofs for submission to the Department of the Treasury centralized payroll unit also have access to the pay checks prior to distribution. This lack of segregation of duties presents a potential for loss where a check could be generated and removed prior to check distribution without being detected.

The division processes approximately 370 termination payments annually. A test of 60 terminated employees noted that 8 of the employees’ final payments were inaccurate. The incorrect final payments resulted from not removing the employee from the payroll in a timely manner, final calculations of days worked were inaccurate, or the terminated employee was not compensated for the proper amount of unused vacation leave time. These occurrences resulted in either over or under payments to the terminated employee.

**Recommendation**

We recommend that management strengthen internal controls by ensuring that the check distribution process does not return payroll checks to the same employee that submitted the payroll information and by improving the processing of employee terminations.

**Auditee’s Response**

We concur with this recommendation and Human Resources will address this shortcoming immediately by having its payroll staff sort and distribute paychecks only for payrolls other than those they prepared.

Accordingly, Human Resources will adjust its closeout cycle for separating employees by delaying the proration of final time balances by three days to allow for delayed entry of leave time by timekeepers. To detect and correct mispayment errors, the Department will now require a personal, post-separation review of all
terminations by our Payroll Supervisor. Internal payroll procedures are being re-written and reissued to include the adjusted proration cycle, the supervisory review and error correction (e.g., overpayment recoup) steps.

Duplicate Payments to Vendors

Our analysis and testing of agency expenditure transactions disclosed duplicate payments to vendors totaling $253,505. We identified 15 duplicate payments ranging from $22 to $7,565 and one duplicate payment for $242,982 made to vendors during our audit period. The occurrence of such duplications allows for the possible loss of monetary resources to the state as well as the loss of valuable human resources to process payments twice and the subsequent recovery functions required to recoup the overpayment.

Duplicate payments primarily occur because of the high volume of transactions processed by the division. Also, the division relies upon controls at the various agencies it services to provide a level of assurance that payment vouchers will not be submitted for payment twice. A breakdown in these controls allowed for the duplicate payment of a $242,982 telecommunications billing.

Upon notification of the duplication of payments, the division implemented controls to lessen the possibility of further duplicate payments. Also, the agency involved in the larger duplicate payment instituted additional steps in their control process.

Recommendation

We recommend the division continue to monitor the control procedures implemented to detect duplicate payments in a timely manner and continue to attempt the recovery of all previously detected duplicate payments.
Auditee’s Response

After taking into consideration the two telecommunication duplicate payments ($242,982 and $7,565) that do not fall within the full administrative control of the Division of Administration leaving twelve duplicate transactions totaling $5,632, this is a further testament given the high volume of transactions that this Division handles, that strong internal controls are in place and functioning properly. However, we concur with this recommendation and the Division has taken the necessary measures to lessen the possibility of duplicate transactions. All duplicate payments have since been recovered except for $473 which is currently being pursued.
THE GOVERNOR’S COUNCIL ON ALCOHOLISM AND DRUG ABUSE
Maintenance of a mail log and depositing checks in a timely manner could reduce the risk of loss or misuse of funds and increase the amount of interest earned by the state.

Governor’s Council on Alcoholism and Drug Abuse

Revenue Processing
During our review of the Department of the Treasury, Division of Administration, certain tests were performed of the financial transactions of the Governor’s Council on Alcoholism and Drug Abuse. The council is an “in but not of” agency of the Department of the Treasury and is responsible for its own revenue.

The court system submits a portion of fines and penalties to the Governor’s Council on Alcoholism and Drug Abuse. The council received approximately $11 million annually. A percentage of these funds supports the administrative costs of the council while the remaining portion is returned to the counties to provide funding for alcohol and drug programs. In order to provide adequate internal control, receipts should be recorded in a mail log on a daily basis and deposited in a timely manner. Circular Letter 94-24-OMB states that agencies are to ensure that moneys are deposited on the same day as received.

Our review of the council’s revenue processing found that a mail log was not being maintained and revenues were not being deposited timely. Of the $3.1 million tested, $1.7 million was not deposited within three working days after receipt. Noncompliance with these requirements results in a loss of interest earnings and places the undeposited revenue at a greater risk of loss or misuse.

Recommendation
We recommend that moneys received be recorded in a mail log on a daily basis, and deposited in a timely manner.

Auditee’s Response
With respect to the Governor’s Council on Alcoholism and Drug Abuse which is “in but not of” the Treasury Department, the Division of Administration does not have direct oversight over this program. However, we
have discussed the recommendation with appropriate staff and the Council has provided the following response:

Corrective actions have been taken to address the deficiency noted. All receipts are now recorded with daily summaries on a daily basis and deposited in a timely manner. Appropriate staff have been informed of the audit findings and will carefully monitor all posting and deposits.
DEPARTMENT OF THE TREASURY
DIVISION OF ADMINISTRATION

The following financial transactions processed by the Department of the Treasury, Division of Administration were excluded from the scope of our audit.

Expenditure Accounts

A. Debt Service Bond Redemptions(Object 5410) - All Treasury Organizations
B. Distribution Center Special Purpose(Organization 2057 - Object 5810)
C. Lottery Award Payments and Interfund Transfers to the General Fund(Organization 2090 - Objects 5810 and 8910)
D. Higher Education Administration State Aid and Grants in Aid Payments(Organization 2155 - Objects 6010, 6040, 6060, 6070, 6099, 6140, 6150)
E. Central Motor Pool Vehicular Purchases(Organization 2052 - Object 7410)
F. Office of Management and Budget - Accounting and Financial Management - (Organization 2040 - Objects 8310, 8750, 8910)
G. Interfund Transfers to funds other than the General Fund(Object 8920) - All Treasury Organizations

Revenue Accounts

A. All Organization 2040 excluding revenue source 1166 - Recoveries for Services
B. All Organization 2057 - Distribution Center
C. All Organization 2080 - Division of Taxation
D. Property Management - Revenue Sources - 1191 and 1194
E. Travel Services - Revenue Sources - 1135 and 4111
F. Office of State Planning - Revenue Source - 1187 - Publication Fees
G. Division of Building and Construction - Management Services - Revenue Source - 3717