Department of the Treasury
Office of Management and Budget
Selected Programs

July 1, 2003 to August 31, 2005

Richard L. Fair
State Auditor
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 the Treasury, Office of Management and Budget, Selected Programs for the period of July 1, 2003 to August 31, 2005. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
October 4, 2005
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Department of the Treasury  
Office of Management and Budget  
Selected Programs

**Scope**

We have completed an audit of selected programs administered by the Department of the Treasury, Office of Management and Budget for the period July 1, 2003 to August 31, 2005. The scope of the audit was limited to the Land, Building, and Asset Management (LBAM) System and compliance with prior report audit findings concerning returned checks and the disposal of excess or damaged check stock. Our audit of LBAM was limited to the land portion of the system. Assets other than land have not yet been entered into the system.

**Objectives**

The objective of the audit was to determine the accuracy and propriety of land transactions recorded in the LBAM system. In addition, we tested for resolution of findings related to our prior report dated May 28, 1997.

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 land entries into the LBAM system. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the program and the internal controls.
A nonstatistical sampling approach was used. Our samples of land were designed to provide conclusions about the validity of ownership and valuation. Additionally, internal controls were surveyed and compliance attributes were tested. Sample populations were sorted and land records were judgmentally selected for testing.

To ascertain the status of findings from our previous report, we identified corrective action, if any, taken by OMB and performed follow-up analysis to determine if it was effective.

We found that the methodology utilized for valuing land resulted in materially inaccurate estimates of historical cost for those properties where historical cost was not known. In addition, there were deed amounts that were not properly allocated to LBAM records. In some cases deed amounts were duplicated for deeds with multiple block and lot designations. We also found the department has complied with prior audit recommendations.
Asset Valuations

The Department of the Treasury, Office of Management and Budget (OMB) is currently in the process of implementing the LBAM system. This system is designed to maintain an accurately valued inventory of the state’s fixed assets. This information in turn will be used to support the financial statement data required for the Comprehensive Annual Financial Report (CAFR). LBAM currently contains only land information which has a value of approximately $1.8 billion for 16,800 records. LBAM records were populated with the Division of Taxation 2003 MOD-IV database which contains property assessment information from the municipal tax assessors’ office. OMB matched MOD-IV data to the Division of Taxation’s Sales database providing acquisition cost information for properties obtained since July 1988. The value of land obtained prior to July 1988 and land donated or purchased for $1,000 or less between July 1988 and June 2003 was deflated using Gross Domestic Product (GDP) indices. Properties identified without acquisition dates were deflated to the default date of January 1967. This date was chosen based on the establishment of land acquisition initiatives. GDP indices were applied to 14,400 land records, representing 86 percent of the total number of land records.

We obtained a download of the LBAM deflated properties and summarized data to identify properties with large deflated values. We matched 30 deeds with a total consideration of $10.8 million per the State of New Jersey Archives records to 79 corresponding deflated LBAM records totaling $338.7 million. Based on this match it appears that the valuation methodology utilized has overstated land values by approximately $327.9 million. In one instance, deeds representing Island Beach State Park were overstated by $180.9 million using the GDP deflator methodology. Based on our review OMB should not use the GDP deflator to value land.

Methodology utilized to calculate estimated historical cost is materially inaccurate.
The system contains duplicate acquisition amounts.

The Division of Taxation maintains an electronic record of all property sales since July 1989. This sales database provided an acquisition cost for LBAM properties acquired during this time period. We tested 23 LBAM records greater than $950,000 that had identical dollar amounts to determine if duplicate amounts were recorded in the system. Properties acquired by the state may have multiple block and lot designations in adjacent municipalities. Our testing disclosed the sales database captured the entire acquisition price instead of allocating it over the deeded property. This resulted in duplication of amounts for certain LBAM records. We noted a total overstatement of approximately $20.1 million out of the $39.5 million tested.

Recommendation

We recommend that OMB obtain acquisition documentation for properties with deeded amounts, and seek a reasonable alternative valuation methodology for the remaining properties. We have provided OMB with a reasonable valuation method that encompasses the assessment values of land by county by year dating back to the 1930s. Utilizing assessment ratios obtained from the Division of Taxation’s Annual Reports, the fair market value per acre, by year, for each county can be determined and applied to state land acquisitions. We also recommend that OMB identify all LBAM records with duplicate amounts, and make appropriate adjustments to these records. The purchase price for deeded land containing multiple block and lot designations should be apportioned to the total land on the deed.
September 27, 2005

Mr. Thomas R. Meseroll  
Assistant State Auditor  
Office of Legislative Services  
Office of the State Auditor  
PO Box 067  
Trenton, New Jersey 08625-0067

RE: Departmental Audit Response – Department of the Treasury  
Office of Management and Budget  
Selected Programs

Dear Mr. Meseroll:

The Office of Management and Budget (OMB) appreciates the efforts of your staff in their review of OMB, Selected Programs. We are working to resolve the finding noted in the audit report and we would like to thank you for giving us an opportunity to comment on the report. The response to the audit team’s recommendations follows:

**Asset Valuations**

*Audit Recommendation* - We recommend that OMB obtain acquisition documentation for properties with deeded amounts, and seek a reasonable alternative valuation methodology for the remaining properties. We have provided OMB with a reasonable valuation methodology that encompasses the assessment values of land by county by year dating back to the 1930s. Utilizing assessment ratios obtained from the Division of Taxation’s Annual Reports, the fair market value per acre, by year, for each county, can be determined and applied to state land acquisitions. We also recommend that OMB identify all LBAM records with duplicate amounts, and make appropriate adjustments to these records. The purchase price for deeded land containing multiple block and lot designations should be apportioned to the total land on the deed.

*Response* – As stated in the audit report, OMB is in the process of implementing the LBAM system and welcomed OLS’ input in regards to an alternate methodology for valuing the land. OMB is currently implementing the recommendation to utilize assessment ratios by year by
Response – continued

county to determine the fair market value per acre. OMB will also be reviewing records to make appropriate adjustments to LBAM records with duplicate amounts. OMB will be working closely with OLS to discuss any issues that may arise in implementing the recommendation. The implementation of the recommendation will be completed in conjunction with the issuance of the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005.

Sincerely,

Charlene M. Holzbaur
Director

cq