New Jersey Commerce, Economic Growth and Tourism Commission, Urban Enterprise Zone Program and Prosperity New Jersey, Incorporated

July 1, 2002 to January 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 Porrioni  
Executive Director  
Office of Legislative Services  


Richard L. Fair  
State Auditor  
June 14, 2005
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New Jersey Commerce, Economic Growth and Tourism Commission
Urban Enterprise Zone Program and Prosperity New Jersey
Incorporated

Scope

We have completed an audit of New Jersey Commerce, Economic Growth and Tourism Commission, Urban Enterprise Zone (UEZ) Program and Prosperity New Jersey, Incorporated (a nonprofit organization) for the period July 1, 2002 to January 31, 2005. The Commission is in, but not of, the Department of the Treasury. Activity of the Urban Enterprise Zone program is recorded on the state’s comprehensive financial system and presented in the state’s annual financial report. The financial activity for Prosperity New Jersey is recorded in off-line accounts and is not presented as part of the state’s annual financial report. Our audit included financial activities accounted for in the state’s comprehensive financial system, the Commission’s accounting system, and Prosperity New Jersey’s financial records.

The prime responsibility of the Urban Enterprise Zone program is to encourage the revitalization of some of the state’s most distressed urban areas. The program’s incentives includes tax credits for participating businesses while offering consumers a reduced sales tax rate on selected commodities. The tax receipts collected by participating businesses are remitted to the Department of the Treasury’s Division of Revenue. Receipts are allocated into UEZ project and administration accounts. These accounts provide the municipalities with a source of funds for approved enterprise zone projects and administrative expenses of the local Urban Enterprise Zone coordinators. Annual receipts and expenditures of the program were $74.6 million and $64.3 million, respectively. The program does not receive an annual appropriation.
Prosperity New Jersey was created by Executive Order #38 in 1995 as a private/public partnership whose prime responsibility is to serve as an umbrella organization which would help foster, promote and strengthen economic activity, job creation, and the overall business climate in New Jersey. For fiscal years 2003 and 2004 Prosperity New Jersey received annual grants of $550,000 from the state. No grant funds were provided for fiscal year 2005. Private sector contributions and interest earning totaled $264,000 for the audit period. Expenditures for the program were $600,000 annually.

**Objectives**

The objectives of our audit were to determine whether financial transactions were related to the organization'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, executive orders, and policies of the organizations. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, 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. 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 commission and walked through the system to determine if the corrective action was effective.

We found that the financial transactions included in our testing were related to the organization's programs, were reasonable, and were properly recorded in the accounting systems. However, management has not resolved the weakness noted in our prior report involving audits of closed urban enterprise projects. This issue has been updated in our current report.

Audits of Closed Urban Enterprise Zone Projects

Proposed enterprise zone projects require the approval of the Urban Enterprise Zone Authority. Projects funded through this program include providing funds for upgrading municipal services, such as police and fire, public improvement projects, and economic development projects. Specific projects funded through this program included purchasing a street sweeper, replacing sidewalks and repairing building facades, construction of a minor-league baseball facility, and providing funds for local loan programs. Initially there were ten designated zones. Currently there are 32 legislatively approved zones serving 37 municipalities.

Since inception of the program in 1983, the authority has approved 1,651 projects with total budgets of $571.5 million that included a state share of $531.7
million. As of January 31, 2005 there were 1,209 closed projects reporting $312.2 million in state expenditures. The prior audit report, dated July 14, 1997, reported that the then-Department of Commerce had contracted with independent accounting firms to perform agreed-upon procedure audits on closed projects. The department received reports for 107 of the 327 closed projects. Since the date of our last report, the commission has received reports for an additional 26 closed projects, bringing the total audited closed projects to 133, representing $53.3 million of state expenditures. The date of the last report received was October 9, 2003. The percentage of closed projects audited has dropped from 33 percent to 11 percent during the last eight years. One zone whose expenditures represent over ten percent of the closed project totals has not been audited.

In accordance with the UEZ guidelines, financial reviews should be performed for all projects. In addition, since the commission relies on the procurement controls of each individual zone, closer monitoring is necessary to verify that funds are properly utilized and reported. During calendar year 2004 the commission established a pilot program utilizing their UEZ field representatives as project reviewers. Thirty projects were reviewed and the documentation for these reviews indicated that there were issues that warranted a more extensive examination which could not be accomplished due to time constraints and staffing levels. As a result, the commission discontinued this review project.

**Recommendation**

We recommend that the commission strengthen its financial review function of closed enterprise zone projects. The commission should develop a plan that would prioritize projects selected for review based on potential risk factors such as quantity of projects, amounts expended and/or complexity of the project.
June 2, 2005

James B. Patterson  
Assistant State Auditor  
New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor  
PO Box 067  
Trenton, NJ 08625-0067  

Dear Mr. Patterson:

I am in receipt of the Office of Legislative Services (OLS) audit report of the New Jersey Commerce, Economic Growth and Tourism Commission, Urban Enterprise Zone (UEZ) Program and Prosperity New Jersey, Incorporated. This memorandum is in response specifically to the recommendation that the Commission strengthen its financial review function of closed enterprise projects, and that the Commission should develop a plan that would prioritize projects selected for review based on potential risk factors such as quantity of projects, amounts expended and/or complexity of the project.

I agree that a steady decline of audit activity in the UEZ Program was apparent through the audit period of July 1, 2002 to January 31, 2005. In response, the newly created office of the Chief Financial Officer incorporated the development of a vigorous audit program into its FY 2005 Strategic Plan. The audit program was developed and went into effect in April 2005. The audits are CPA supervised and staff is knowledgeable and trained in both the UEZ program and audit techniques.

Audits include the review of closed projects as well as other compliance issues relative to all projects: program regulation, allowable administrative costs, and geographical zone restrictions.

From April 18 through May 18, 2005 audit staff visited five zones: Asbury Park, Irvington, Trenton, West New York and Union City. The audits are in various stages of closure; findings and recommendations are being documented. Also, initial visits to Roselle and Pleasantville are scheduled for June 2005.

Commerce staff is off to a good start in the resolution of the significant conditions noted in both this and the prior OLS report. I also gratefully acknowledge and welcome the OLS suggestion at a recent meeting for a cooperative effort between our agencies in the audits of the many municipalities and projects involved in this program. Staffing and time constraints are issues we both have to manage; yet the size and dollar volume of this program warrant our serious attention to this finding.

Thank you for the opportunity to respond to the OLS report.

Very truly yours,

Virginia Bauer  
Chief Executive Officer/Secretary