EXECUTIVE SUMMARY

DEPARTMENT OF THE TREASURY
DIVISION OF PROPERTY MANAGEMENT AND CONSTRUCTION
BUILDING LEASES

Our audit was limited to the procurement and management of leases acquired by the division. We found that the General Fund transactions included in our testing were related to the lease agreements, were reasonable, and were recorded properly in the accounting system. We also found lease escalations were reasonable, the lease procurement process was adequate, and the utilization of state-owned and leased space was efficient. In making these determinations, we found certain internal control weaknesses and inefficiencies regarding site visits and escalations meriting management’s attention.

AUDIT HIGHLIGHTS

- The division conducts site visits of leased office space to inspect the condition of those properties as required by N.J.A.C. 17:11-2.2. As of June 14, 2012, 30 of 248 office lease sites had not been visited in 12 to 23 months. As a result of the division not visiting the leased properties at least annually, certain safety and security issues may be neglected. Management contends there is a shortage of staff within the unit that performs the site-visit function.

- We reviewed 12 leases with escalation clauses and found two had escalation rates that were 81 percent and 65 percent higher than the averages in our sample. These higher rates were the result of higher janitorial, landscaping, and administrative costs. In one of these leases, the landlord hired family members to perform janitorial and administrative duties. The division does not use standard lease escalation language, and lease terms for allowable escalation costs have been too broadly interpreted. As a result, the state may overpay for services.

- We noted questionable hand-written third-party documentation being used to support landlords’ escalation costs. The division accepted this type of documentation as valid and processed payment for reimbursement. Better scrutiny and skepticism of questionable third-party invoices along with the requirement of the submission of vendors’ IRS Form 1099-MISCs may provide the division with better assurance that services reported by the landlord were actually rendered for the amounts reimbursed.

AUDITEE RESPONSE

The department generally concurs with our findings and recommendations.

For the complete audit report, click here.