



STATE OF NEW JERSEY

Single Audit Report

Year ended June 30, 2016

Independent Auditors' Report on the Schedule of Expenditures of Federal Awards

Independent Auditors' Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance Required by the Uniform Guidance

STATE OF NEW JERSEY

Year ended June 30, 2016

Table of Contents

	Page
Independent Auditors' Report on the Schedule of Expenditures of Federal Awards	1-2
Schedule of Expenditures of Federal Awards	3-9
Notes to Schedule of Expenditures of Federal Awards	10-11
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	12-15
Schedule of Findings and Questioned Costs	16-130



KPMG LLP
New Jersey Headquarters
51 John F. Kennedy Parkway
Short Hills, NJ 07078-2702

Independent Auditors' Report on the Schedule of Expenditures of Federal Awards

The Governor
State of New Jersey:

Report on Schedule of Expenditures of Federal Awards

We have audited the accompanying schedule of expenditures of Federal awards (the schedule) of the State of New Jersey for the year ended June 30, 2016, and the related notes.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of this schedule in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the schedule of expenditures of Federal awards referred to above presents fairly, in all material respects, the expenditures of Federal awards of the State of New Jersey, as described above, for the year ended June 30, 2016, in accordance with the cash basis of accounting described in note 2.



Basis of Accounting

We draw attention to note 2 to the schedule of expenditures of Federal awards, which describes the basis of accounting. The schedule of expenditures of Federal awards is prepared on the cash basis of accounting, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matter

As described in note 1 to the schedule of expenditures of Federal awards, the Schedule does not include expenditures of Federal awards for those entities determined to be component units of the State of New Jersey for financial statement purposes. These entities may be required to have their own independent audit in compliance with the Uniform Guidance.

KPMG LLP

Short Hills, New Jersey
March 29, 2017

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
U.S. Department of Agriculture:			
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 763,429	—
10.028	Wildlife Services	3,971	—
10.069	Conservation Reserve Program	83,602	83,602
10.170	Specialty Crop Block Grant Program – Farm Bill	469,305	184,621
10.171	Organic Certification Cost Share Programs	60,060	—
10.304	Homeland Security Agricultural	42,712	—
10.435	State Mediation Grants	6,879	—
10.458	Crop Insurance Education in Targeted States	279,788	—
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	93,480	—
10.546	Supplemental Nutrition Assistance Program (SNAP) Recipient Integrity Information Technology Grant	332,320	—
<i>SNAP Cluster:</i>			
10.551	Supplemental Nutrition Assistance Program (nonmonetary)	1,273,480,586	—
10.561	State Administrative Matching Grants for Supplemental Nutrition Assistance Program	170,201,093	142,287,032
	Total SNAP Cluster	1,443,681,679	142,287,032
<i>Child Nutrition Cluster:</i>			
10.553	School Breakfast Program	93,811,279	93,811,279
10.555	National School Lunch Program	259,650,984	259,650,984
10.556	Special Milk Program for Children	369,514	369,514
10.559	Summer Food Service Program for Children	8,641,535	8,264,011
	Total Child Nutrition Cluster	362,473,312	362,095,788
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	138,379,290	25,215,405
10.558	Child and Adult Care Food Program	82,425,296	81,331,527
10.560	State Administrative Expenses for Child Nutrition	7,893,298	—
<i>Food Distribution Cluster:</i>			
10.565	Commodity Supplemental Food Program	223,562	214,760
10.568	Emergency Food Assistance Program (Administrative Costs)	1,971,729	1,354,521
10.569	Emergency Food Assistance Program (Food Commodities)	15,820,167	—
	Total Food Distribution Cluster	18,015,458	1,569,281
10.572	WIC Farmers' Market Nutrition Program (FMNP)	676,525	(4,425)
10.576	Senior Farmers' Market Nutrition Program	788,716	28,383
10.579	Child Nutrition Discretionary Grant Limited Availability	929,482	862,226
10.580	Supplemental Nutrition Assistance Program, Process and Technology Improvement Grants	225,486	—
10.582	Fresh Fruit and Vegetable Program	3,949,213	3,887,348
10.589	Child Nutrition Direct Certification Performance Awards	292,657	—
10.664	Cooperative Forestry Assistance	1,895,144	485,216
10.676	Forest Legacy Program	82,642	—
10.680	Forest Health Protection	2,725	—
10.902	Soil and Water Conservation	12,195	12,195
10.923	Emergency Watershed Protection Program	2,405	—
10.927	Emergency Watershed Protection Program – Disaster Relief Appropriations Act	1,453,443	—
	Total U.S. Department of Agriculture	2,065,314,512	618,038,199
U.S. Department of Commerce:			
11.407	Interjurisdictional Fisheries Act of 1986	166,847	—
11.419	Coastal Zone Management Administration Awards	2,384,920	100,302
11.434	Cooperative Fishery Statistics	123,546	—
11.441	Regional Fishery Management Councils	900,660	—
11.472	Unallied Science Program Pass-Through from National Marine Fisheries Service (NA15NMF4720019)	43,844	—
11.474	Atlantic Coastal Fisheries Cooperative Management Act	428,609	—
11.483	NOAA Programs for Disaster Relief Appropriations Act – Non-construction and Construction	1,418,211	21,061
11.549	State and Local Implementation Grant Program	457,171	—
11.557	Broadband Technology Opportunities Program (BTOP)	20,654,036	—
	Total U.S. Department of Commerce	26,577,844	121,363
U.S. Department of Defense:			
12.217	Electronic Absentee Systems for Elections	126,749	—
12.401	National Guard Military Operations and Maintenance (O&M) Projects	39,931,724	—
12.404	National Guard Challenge Program	1,899,500	—
12.UNA	Unassigned Catalog Numbers from Federal Government	214,508	—
	Total U.S. Department of Defense	42,172,481	—
U.S. Department of Housing and Urban Development:			
14.228	Community Development Block Grants/State's Programs and Non-Entitlement Grants in Hawaii	13,361,399	13,094,513
14.231	Emergency Solutions Grants Program	2,343,617	2,217,489
14.235	Supportive Housing Program	1,074,609	—
14.238	Shelter Plus Care	2,289,200	—
14.239	Home Investment Partnerships Program	3,113,476	1,222,982
14.241	Housing Opportunities for Persons with AIDS	1,420,181	—
<i>CDBG – Disaster Recovery Grants – Pub. L. No. 113-2 Cluster</i>			
14.269	Hurricane Sandy Community Development Block Grant Disaster Recovery Grant (CDBG-DR)	679,253,452	160,091,092
	Total CDBG – Disaster Recovery Grants – Pub. L. No. 113-2 Cluster	679,253,452	160,091,092

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
14.401	U.S. Department of Housing and Urban Development, continued: Fair Housing Assistance Program_State and Local	\$ 109,579	—
	<i>Section 8 Project-Based Cluster:</i>		
14.856	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitation	5,905,447	—
	Total Section 8 Project-Based Cluster	5,905,447	—
	<i>Housing Voucher Cluster:</i>		
14.871	Section 8 Housing Choice Vouchers	230,075,631	10,121
14.879	Mainstream Vouchers	260,194	601
	Total Housing Voucher Cluster	230,335,825	10,722
	Total U.S. Department of Housing and Urban Development	939,206,785	176,636,798
	U.S. Department of the Interior:		
15.153	Hurricane Sandy Disaster Relief – Coastal Resiliency Grants Pass-Through from National Fish (MOU) and Wildlife Foundation	1,637,685	1,209,913
15.424	Marine Minerals Activities – Hurricane Sandy	398,667	—
	<i>Fish and Wildlife Cluster:</i>		
15.605	Sport Fish Restoration Program	3,763,098	—
15.611	Wildlife Restoration and Basic Hunter Education	6,166,727	—
	Total Fish and Wildlife Cluster	9,929,825	—
15.614	Coastal Wetlands Planning, Protection and Restoration Program	1,358,065	—
15.615	Cooperative Endangered Species Conservation Fund	55,607	—
15.616	Clean Vessel Act Program	278,074	209,817
15.622	Sportfishing and Boating Safety Act	947,535	—
15.630	Coastal Program	956	—
15.633	Landowner Incentive Program	71,895	71,895
15.634	State Wildlife Grants	1,037,548	—
15.657	Endangered Species Conservation – Recovery Implementation Funds	20,794	—
15.810	National Cooperative Geologic Mapping Program	169,505	—
15.814	National Geological and Geophysical Data Preservation Program	18,000	—
15.904	Historic Preservation Fund Grants-In-Aid	974,752	82,864
15.916	Outdoor Recreation_Acquisition, Development and Planning	2,788,000	—
15.957	Historic Preservation Fund Grants to Provide Disaster Relief to Historic Properties Damaged by Hurricane Sandy	4,678,950	2,487,658
	Total U.S. Department of the Interior	24,365,858	4,062,147
	U.S. Department of Justice:		
16.017	Sexual Assault Services Formula Program	335,749	334,958
16.101	Equal Employment Opportunity	874	—
16.523	Juvenile Accountability Block Grants	332,919	127,364
16.523	Juvenile Accountability Block Grants Pass-Through from Essex County (MOU)	29,999	—
	Total Juvenile Accountability Block Grants	362,918	127,364
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	477,727	263,279
16.543	Missing Children's Assistance	539,726	—
16.554	National Criminal History Improvement Program (NCHIP)	439,499	—
16.575	Crime Victim Assistance	11,170,764	9,285,165
16.576	Crime Victim Compensation	1,373,384	715,342
16.585	Drug Court Discretionary Grant Program	29,909	—
16.588	Violence Against Women Formula Grants	3,035,136	2,392,473
16.593	Residential Substance Abuse Treatment for State Prisoners	204,024	101,504
16.606	State Criminal Alien Assistance Program	2,650,663	—
16.609	Project Safe Neighborhoods	285,797	272,237
16.738	Edward Byrne Memorial Justice Assistance Grant Program	4,500,425	2,777,662
16.741	DNA Backlog Reduction Program	1,242,095	—
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	418,317	16,833
16.750	Support for Adam Walsh Act Implementation Grant Program	447,053	—
16.751	Edward Byrne Memorial Competitive Grant Program	150,999	—
16.754	Harold Rogers Prescription Drug Monitoring Program	1,339	—
16.812	Second Chance Act Prisoner Reentry Initiative	356,383	58,544
16.813	NICS Act Record Improvement Program	63,946	—
16.816	John R. Justice Prosecutors and Defenders Incentive Act	33,892	—
16.826	Vision 21	84,724	—
	Total U.S. Department of Justice	28,205,343	16,345,361
	U.S. Department of Labor:		
17.002	Labor Force Statistics	2,236,249	—
17.005	Compensation and Working Conditions	340,510	—
	<i>Employment Service Cluster:</i>		
17.207	Employment Service/Wagner-Peyser Funded Activities	18,547,603	—
17.801	Disabled Veterans' Outreach Program (DVOP)	2,444,042	—
17.804	Local Veterans' Employment Representative Program	739,361	—
	Total Employment Service Cluster	21,731,006	—
17.225	Unemployment Insurance – Federal	118,240,903	—
17.225	Unemployment Insurance – State	2,022,554,170	—
	Total Unemployment Insurance	2,140,795,073	—
17.235	Senior Community Service Employment Program	2,432,504	—
17.245	Trade Adjustment Assistance	5,076,628	—

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
	U.S. Department of Labor, continued:		
	<i>WIA/WIOA Cluster:</i>		
17.258	WIA/WIOA Adult Program	\$ 25,878,999	21,534,444
17.259	WIA/WIOA Youth Activities	20,766,487	20,766,487
17.278	WIA/WIOA Dislocated Worker Formula Grants	32,828,173	24,821,515
	Total WIA/WIOA Cluster	79,473,659	67,122,446
17.261	WIA/WIOA Pilots, Demonstrations and Research Projects	485,432	355,128
17.271	Work Opportunity Tax Credit Program (WOTC)	307,950	—
17.273	Temporary Labor Certification for Foreign Workers	714,677	—
17.277	WIOA National Dislocated Worker Grants / WIA National Emergency Grants	4,043,370	3,040,132
17.281	WIA/WIOA Dislocated Worker National Reserve Technical Assistance and Training	8,424	1,265
17.503	Occupational Safety & Health_State Program	2,290,634	—
17.504	Consultation Agreements	1,836,870	—
17.600	Mine Health and Safety Grants	36,107	—
	Total U.S. Department of Labor	2,261,809,093	70,518,970
	U.S. Department of Transportation:		
20.106	Airport Improvement Program	189,644	—
	<i>Highway Planning and Construction Cluster:</i>		
20.205	Highway Planning and Construction	930,411,720	—
20.205	ARRA – Highway Planning and Construction	(2,324,970)	—
20.219	Recreational Trails Program	1,647,161	1,128,061
	Total Highway Planning and Construction Cluster	929,733,911	1,128,061
20.218	National Motor Carrier Safety	5,717,135	—
20.232	Commercial Driver's License Program Improvement Grant	1,277,860	—
20.234	Safety Data Improvement Program	138,126	—
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	8,167	—
	<i>Highway Safety Cluster:</i>		
20.600	State and Community Highway Safety	4,832,382	2,479,917
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	(47,445)	—
20.612	Incentive Grant Program to Increase Motorcyclist Safety	13,416	13,416
20.616	National Priority Safety Programs	6,414,456	3,765,622
	Total Highway Safety Cluster	11,212,809	6,258,955
20.700	Pipeline Safety Program State Base Grants	1,648,888	—
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	402,598	285,445
20.CON	Contractual Agreements – Fatal Accident Reporting System	234,223	—
	Total U.S. Department of Transportation	950,563,361	7,672,461
	U.S. Department of the Treasury:		
21.CON	Contractual Agreements	100,749	64,091
	Total U.S. Department of the Treasury	100,749	64,091
	Equal Employment Opportunity Commission:		
30.002	Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	230,946	—
	Total Equal Employment Opportunity Commission	230,946	—
	National Foundation on the Arts and the Humanities:		
45.025	Promotion of the Arts_Partnership Agreements	844,584	369,640
45.301	Museums for America	36,686	—
	Total National Foundation on the Arts and the Humanities	881,270	369,640
	U.S. Small Business Administration:		
59.061	State Trade and Export Promotion Pilot Grant Program	425,725	425,725
	Total U.S. Small Business Administration	425,725	425,725
	U.S. Department of Veterans Affairs:		
64.005	Grants to States for Construction of State Home Facilities	1,418,577	—
64.009	Veterans Medical Care Benefits	478,648	478,579
64.015	Veterans State Nursing Home Care	34,462,907	—
64.101	Burial Expenses Allowances for Veterans	1,007,691	—
64.125	Vocational and Educational Counseling for Servicemembers and Veterans	521,252	—
64.203	State Cemetery Grants	3,033,678	—
	Total U.S. Department of Veterans Affairs	40,922,753	478,579
	U.S. Environmental Protection Agency:		
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose		
	Activities Relating to the Clean Air Act	468,710	—
66.454	Water Quality Management Planning	868,806	175,806
	<i>Clean Water State Revolving Fund Cluster:</i>		
66.458	Capitalization Grants for Clean Water State Revolving Funds	75,731,661	72,539,508
	Total Clean Water State Revolving Fund Cluster	75,731,661	72,539,508
66.461	Regional Wetland Program Development Grants	215,427	—
66.462	National Wetland Program Development Grants and Five-Star Restoration Training Grant	10,000	—
	<i>Drinking Water State Revolving Fund Cluster:</i>		
66.468	Capitalization Grants for Drinking Water State Revolving Funds	18,718,934	16,703,420
	Total Drinking Water State Revolving Fund Cluster	18,718,934	16,703,420

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
	U.S. Environmental Protection Agency, continued:		
66.472	Beach Monitoring and Notification Program Implementation Grants	\$ 318,823	208,118
66.474	Water Protection Grants to the States	60,606	—
66.605	Performance Partnership Grants	25,939,510	2,945,454
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	236,538	—
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	277,765	—
66.708	Pollution Prevention Grants Program	7,107	—
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	854,548	—
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	1,061,199	—
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	1,310,560	—
66.817	State and Tribal Response Program Grants	832,129	—
66.819	Disaster Relief Appropriations Act (DRAA) Hurricane Sandy Leaking Underground Storage Tank Trust Fund Corrective Action Program	183,094	—
	Total U.S. Environmental Protection Agency	127,095,417	92,572,306
	U.S. Department of Energy:		
81.041	State Energy Program	1,231,996	—
81.041	ARRA – State Energy Program	(1,800,825)	(1,800,825)
	Total State Energy Program	(568,829)	(1,800,825)
81.042	Weatherization Assistance for Low-Income Persons	4,367,811	3,623,525
81.087	Renewable Energy Research and Development	40,478	36,478
81.119	State Energy Program Special Projects	187,200	186,164
81.ADM	Administration Costs Consolidations	489,658	—
	Total U.S. Department of Energy	4,516,318	2,045,342
	U.S. Department of Education:		
84.002	Adult Education – Basic Grants to States	14,790,850	13,059,902
84.010	Title I Grants to Local Educational Agencies	316,898,683	307,443,650
84.011	Migrant Education_State Grant Program	2,429,577	2,326,746
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	1,489,379	1,012,529
	<i>Special Education Cluster (IDEA):</i>		
84.027	Special Education_Grants to States	386,402,591	365,809,004
84.173	Special Education_Preschool Grants	11,379,877	11,114,318
	Total Special Education Cluster (IDEA)	397,782,468	376,923,322
84.032	Federal Family Education Loans	2,474,338,548	—
84.048	Career and Technical Education – Basic Grants to States	19,696,712	17,294,390
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	53,666,187	4,842,761
84.144	Migrant Education_Coordination Program	65,944	46,055
84.169	Independent Living_State Grants	9,618	9,618
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	189,560	189,560
84.181	Special Education – Grants for Infants and Families	11,038,737	8,150,395
84.184	Safe and Drug-Free Schools and Communities_National Programs	354,905	—
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	566,690	177,804
84.196	Education for Homeless Children and Youth	1,077,476	895,264
84.224	Assistive Technology	(158,768)	(158,768)
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	19,349	—
84.282	Charter Schools	3,164,490	3,105,421
84.287	Twenty-First Century Community Learning Centers	21,750,466	20,803,077
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	607,783	—
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	2,851,343	2,547,817
84.336	Teacher Quality Partnership Grants	81,453	—
84.358	Rural Education	32,105	30,512
84.365	English Language Acquisition State Grants	21,816,598	20,793,910
84.366	Mathematics and Science Partnerships	2,036,207	1,898,289
84.367	Improving Teacher Quality State Grants	54,820,509	52,997,187
84.369	Grants for State Assessments and Related Activities	6,997,706	—
84.372	Statewide Longitudinal Data Systems	728,687	44,898
84.377	School Improvement Grants	8,460,734	7,915,984
84.378	College Access Challenge Grant Program	504,077	504,077
84.412	ARRA – Race to the Top – Early Learning Challenge	8,893,121	4,959,795
84.413	ARRA – Race To The Top	9,264,552	5,233,361
84.419	Preschool Development Grants	13,642,680	13,167,113
84.CON	Contractual Agreements – National Center Educational Statistics	141,234	—
84.UNA	Unassigned Catalog Numbers from Federal Government	20,116	—
	Total U.S. Department of Education	3,450,069,776	866,214,669
	U.S. Election Assistance Commission:		
90.401	Help America Vote Act Requirements Payments	2,057,389	—
	Total U.S. Election Assistance Commission	2,057,389	—

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
93.041	U.S. Department of Health and Human Services: Special Programs for the Aging Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	\$ 122,020	—
93.042	Special Programs for the Aging Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals	357,441	—
93.043	Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	609,709	609,709
	<i>Aging Cluster:</i>		
93.044	Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	10,215,650	10,215,650
93.045	Special Programs for the Aging Title III, Part C Nutrition Services	19,220,760	17,852,332
93.053	Nutrition Services Incentive Program	3,891,014	3,891,014
	Total Aging Cluster	33,327,424	31,958,996
93.048	Special Programs for the Aging Title IV & Title II Discretionary Projects	82,574	—
93.052	National Family Caregiver Support, Title III, Part E	4,225,762	4,016,716
93.069	Public Health Emergency Preparedness	15,660,615	6,572,206
93.070	Environmental Public Health and Emergency Response	1,534,723	—
93.071	Medicare Enrollment Assistance Program	443,430	419,492
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP)		
	Aligned Cooperative Agreements	2,373,476	1,119,470
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	322,142	39,006
93.086	Healthy Marriage Promotion and Responsible Fatherhood Grants	348,176	66,114
93.090	Guardian Assistance	1,565,027	—
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	1,631,351	1,467,541
	<i>Hurricane Sandy Relief Cluster:</i>		
93.095	HHS Programs for Disaster Relief Appropriations Act – Non Construction	33,209,057	27,833,099
	Total Hurricane Sandy Relief Cluster	33,209,057	27,833,099
93.103	Food and Drug Administration Research	255,492	—
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,354,785	1,350,000
93.110	Maternal and Child Health Federal Consolidated Programs	527,147	338,631
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	1,957,041	1,140,545
93.127	Emergency Medical Services for Children	155,535	—
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	177,079	23,500
93.136	Injury Prevention and Control Research and State and Community Based Programs	1,328,274	1,023,417
93.142	NIEHS Hazardous Waste Worker Health and Safety Training	68,502	—
93.150	Projects for Assistance in Transition from Homelessness (PATH)	2,136,566	2,051,520
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	2,134,154	1,968,863
93.165	Grants to States for Loan Repayment Program	150,000	—
93.235	Affordable Care Act (ACA) Abstinence Education Program	991,665	885,868
93.240	State Capacity Building	546,853	—
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	3,905,169	3,613,720
93.251	Universal Newborn Hearing Screening	238,288	72,677
93.262	Occupational Safety and Health Program	225,548	—
93.268	Immunization Cooperative Agreements	7,115,228	1,742,392
93.268	Immunization Cooperative Agreements (nonmonetary)	82,786,858	—
	Total Immunization Cooperative Agreements	89,902,086	1,742,392
93.270	Adult Viral Hepatitis Prevention and Control	93,247	—
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	3,232,813	1,321,870
93.296	State Partnership Grant Program to Improve Minority Health	66,331	60,648
93.305	National State Based Tobacco Control Programs	984,793	755,012
93.314	Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	138,390	—
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	914,696	—
93.324	State Health Insurance Assistance Program	789,953	317,419
93.336	Behavioral Risk Factor Surveillance System	237,930	—
93.369	ACL Independent Living State Grants	673,372	673,372
93.464	ACL Assistive Technology	430,371	430,371
93.500	Pregnancy Assistance Fund Program	1,787,549	1,786,183
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	11,486,558	11,025,617
93.507	PPHF National Public Health Improvement Initiative	106,960	600
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	318,807	—
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	696,002	—
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	(412)	—
93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	167,021	103,765
93.556	Promoting Safe and Stable Families	5,071,444	5,071,444
	<i>TANF Cluster:</i>		
93.558	Temporary Assistance for Needy Families	289,334,860	113,640,083
	Total TANF Cluster	289,334,860	113,640,083

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
	U.S. Department of Health and Human Services, continued:		
93.563	Child Support Enforcement	\$ 163,807,567	24,450,228
93.566	Refugee and Entrant Assistance_State Administered Programs	2,253,209	810,449
93.568	Low-Income Home Energy Assistance	120,226,001	20,732,507
93.569	Community Services Block Grant	19,231,304	18,471,284
	<i>CCDF Cluster:</i>		
93.575	Child Care and Development Block Grant	116,582,020	(5,404,057)
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	89,754,838	9,679,860
	Total CCDF Cluster	206,336,858	4,275,803
93.576	Refugee and Entrant Assistance_Discretionary Grants	471,157	471,157
93.584	Refugee and Entrant Assistance_Targeted Assistance Grants	124,177	124,177
93.586	State Court Improvement Program	870,767	—
93.590	Community-Based Child Abuse Prevention Grants	2,360,839	2,319,798
93.597	Grants to States for Access and Visitation Programs	226,171	—
93.599	Chafee Education and Training Vouchers Program (ETV)	735,895	735,895
93.600	Head Start	168,109	—
93.617	Voting Access for Individuals with Disabilities_Grants to State	231,450	180,772
93.630	Developmental Disabilities Basic Support and Advocacy Grants	1,475,389	440,944
93.643	Children's Justice Grants to States	451,930	292,822
93.645	Stephanie Tubbs Jones Child Welfare Services Program	4,897,258	—
93.652	Adoption Opportunities	230,966	154,067
93.658	Foster Care_Title IV-E	99,740,017	88,252,139
93.659	Adoption Assistance	59,569,926	59,569,926
93.667	Social Services Block Grant	36,877,701	8,511,627
93.669	Child Abuse and Neglect State Grants	526,301	526,301
93.670	Child Abuse and Neglect Discretionary Activities	407,970	260,643
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	2,268,250	2,149,518
93.674	Chafee Foster Care Independence Program	2,282,458	2,282,458
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – financed in part by the Prevention and Public Health Fund (PPHF)	420,368	—
93.734	Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs – financed by Prevention and Public Health Funds (PPHF)	270,447	231,149
93.735	State Public Health Approaches for Ensuring Qutline Capacity – Funded in part by Prevention and Public Health Funds (PPHF)	381,946	44,011
93.753	Child Lead Poisoning Prevention Surveillance Financed in Part by Prevention and Public Health (PPHF) Program	55,896	25,000
93.757	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	593,985	355,529
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	4,099,121	3,278,545
93.761	Evidence-Based Falls Prevention Programs Financed Solely by Prevention and Public Health Funds (PPHF)	115,000	57,000
93.767	Children's Health Insurance Program	368,037,386	1,781,221
	<i>Medicaid Cluster:</i>		
93.775	State Medicaid Fraud Control Units	2,871,334	—
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	12,029,477	—
93.778	Medical Assistance Program	9,110,112,013	146,690,823
93.778	ARRA – Medical Assistance Program	(706,140)	—
	Total Medicaid Cluster	9,124,306,684	146,690,823
93.791	Money Follows the Person Rebalancing Demonstration	\$ 10,667,620	1,525,599
93.801	Ebola Healthcare Preparedness and Response for Select Cities with Enhanced Airport Entrance Screenings from Affected Countries in West Africa	125,000	124,500
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	649,210	—
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	2,286,695	1,281,354
93.870	Maternal, Infant and Early Childhood Home Visiting Grant Program	21,851	—
93.889	National Bioterrorism Hospital Preparedness Program	6,114,790	3,797,647
93.913	Grants to States for Operation of Offices of Rural Health	272,834	43,092
93.917	HIV Care Formula Grants	28,452,206	7,268,069
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93,761	—
93.940	HIV Prevention Activities_Health Department Based	14,692,841	10,623,059
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	3,011,275	—
93.945	Assistance Programs for Chronic Disease Prevention and Control	1,412,847	1,294,989
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	351,256	—
93.958	Block Grants for Community Mental Health Services	13,535,311	13,529,259
93.959	Block Grants for Prevention and Treatment of Substance Abuse	44,875,949	38,007,046
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants	2,307,338	120,730
93.982	Mental Health Disaster Assistance and Emergency Mental Health	117,800	115,048
93.994	Maternal and Child Health Services Block Grant to the States	12,913,550	5,353,778
93.CON	Contractual Agreement	3,965,112	326,724
	Total U.S. Department of Health and Human Services	10,888,317,545	694,386,552

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

Federal CFDA number	Federal agency/program title or cluster	Amounts	
		Expenditures	Passed through to subrecipients
	Corporation for National and Community Service:		
94.003	State Commissions	337,247	—
94.006	AmeriCorps	2,577,489	2,322,448
	<i>Foster Grandparent/Senior Companion Cluster:</i>		
94.011	Foster Grandparent Program	736,646	261,000
	Total Foster Grandparent/Senior Companion Cluster	736,646	261,000
	Total Corporation for National and Community Service	3,651,382	2,583,448
	Social Security Administration:		
	<i>Disability Insurance/SSI Cluster:</i>		
96.001	Social Security_Disability Insurance	62,472,845	—
	Total Disability Insurance/SSI Cluster	62,472,845	—
96.UNA	Unassigned Catalog Numbers from Federal Government	5,051	—
	Total Social Security Administration	62,477,896	—
	U.S. Department of Homeland Security:		
97.008	Non-Profit Security Program	764,052	713,148
97.012	Boating Safety Financial Assistance	1,435,583	—
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	79,558	—
97.029	Flood Mitigation Assistance	12,953,350	12,953,350
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	149,838,656	132,705,484
97.039	Hazard Mitigation Grant	41,720,066	8,259,900
97.041	National Dam Safety Program	119,790	—
97.042	Emergency Management Performance Grants	7,955,542	1,765,700
97.045	Cooperating Technical Partners	490,192	—
97.047	Pre-Disaster Mitigation	178,023	178,023
97.056	Port Security Grant Program	602	—
97.067	Homeland Security Grant Program	31,677,359	22,730,242
97.088	Disaster Assistance Projects	2,043,130	2,015,111
97.091	Homeland Security Biowatch Program	791,497	—
97.092	Repetitive Flood Claims	(237)	—
97.110	Severe Repetitive Loss Program	2,464,447	2,464,447
	Total U.S. Department of Homeland Security	252,511,610	183,785,406
	Totals	\$ 21,171,474,053	2,736,321,058

See accompanying notes to the schedule of expenditures of federal awards.

STATE OF NEW JERSEY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

(1) Basis of Presentation

(a) Reporting Entity

The schedule of expenditures of Federal awards (the Schedule) includes all Federal award programs administered by the State of New Jersey (the State) except for component units for the fiscal year ended June 30, 2016. The State financial reporting entity is described in note 1b of the State's Comprehensive Annual Financial Report. Accordingly, the accompanying Schedule presents the Federal awards programs administered by the State, as defined above, for the year ended June 30, 2016.

(b) Federal Family Education Loan Program

The State administers the Federal Family Education Loan Program – Guaranty Program (FFELP). During the fiscal year ended June 30, 2016 there were no new loans guaranteed. Loans repurchased during the year and administrative costs amounted to \$59,661,048 and \$13,313,013, respectively, and are included in the accompanying Schedule. The principal amount outstanding for guaranteed loans as of June 30, 2016 and 2015 were \$2,139,188,879 and \$2,401,364,487, respectively.

(c) Federal Awards Programs Numbers

Certain programs presented in the accompanying Schedule includes Federal award programs that have not been assigned a Catalog of Federal Domestic Assistance (CFDA) number, which are reported by the respective Federal agency and titled “UNA”. Programs under direct contract are titled “CON”. The Administration Costs Consolidations under the U.S. Department of Energy is labeled “ADM”.

(d) Disaster Grants – Public Assistance (Presidentially Declared Disaster) (97.036)

After a presidentially declared disaster, the U.S. Federal Emergency Management Agency (FEMA) provides a public assistance grant to reimburse eligible costs associated with repair, replacement, or restoration of disaster-damaged facilities. The Federal Government reimburses in the form of cost-shared grants.

In 2016, FEMA approved approximately \$20,030,000 of eligible expenditures that were incurred in a prior year and are included in the Schedule.

(2) Basis of Accounting

(a) General

The accompanying Schedule includes the expenditures for each Federal financial assistance program of the State and is presented on the cash basis of accounting, which is based on cash disbursements for the period.

(b) Highway Planning and Construction Program

The amount presented in the Highway Planning and Construction Program (20.205) represents the summary of billings from the Department of Transportation to the Federal Government which include expenditures currently determined to be chargeable to the Federal program.

STATE OF NEW JERSEY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

(c) ***Nonmonetary Federal Awards***

The amounts identified in the Schedule as surplus foods, food stamps, commodities, and vaccines represent the dollar value of items consumed.

(d) ***Indirect Costs***

The State and its various departments did not elect the 10 percent de minimis indirect cost rate as discussed in 2 CFR 200.414. Each department within the State that has a negotiated indirect cost rate with a Federal agency can use such indirect cost rates for any pass through grants to subrecipients.

(3) **Matching Costs**

Matching costs, i.e., the non-Federal share of certain program costs, are not included in the accompanying Schedule.

(4) **Relationship to Federal Financial Reports**

The regulations and guidelines governing the preparation of Federal financial reports vary by Federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the Federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule, which is prepared on the cash basis explained in note 2.

(5) **Contingencies**

The State's participation in Federal funding is subject to review by the U.S. Department of Health and Human Services (HHS) as cognizant agency. HHS coordinates the review of findings and questioned costs with other Federal agencies. HHS and the other Federal agencies determine the ultimate allowability of expenditures charged to the Federal grants. The State is unable to determine the amounts, if any, that Federal agencies will disallow. Any impact as a result of these matters will be reflected in the Schedule and recognized by the respective Federal program when amounts can be determined.

The State is a party to various legal actions arising in the ordinary course of business. While it is not possible at this time to predict the ultimate outcome of these actions, any impact as a result of these matters will be reflected in the Schedule and recognized by the respective Federal program when amounts can be determined.



KPMG LLP
New Jersey Headquarters
51 John F. Kennedy Parkway
Short Hills, NJ 07078-2702

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

The Governor
State of New Jersey:

Report on Compliance for Each Major Federal Program

We have audited the State of New Jersey's (the State) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the State's major Federal programs for the year ended June 30, 2016. The State's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The schedule of expenditures of Federal awards and our audit described below does not include expenditures of Federal awards for those entities determined to be component units of the State for financial statement purposes. These entities may be required to have their own independent audit in compliance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the State's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified and modified audit opinions on compliance. However, our audit does not provide a legal determination of the State's compliance.



Basis for Qualified Opinion

As described below and described in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding the following:

<u>Federal awarding agency</u>	<u>State administering agency</u>	<u>Federal program (CFDA number)</u>	<u>Compliance requirement</u>	<u>Finding number</u>
U.S. Department of Health and Human Services	Department of Children and Families	Social Services Block Grant (93.667)	Activities Allowed or Unallowed/ Allowable Costs/ Cost Principles/ Period of Performance	2016-001
U.S. Department of Health and Human Services	Department of Children and Families	Social Services Block Grant (93.667)	Reporting	2016-002
U.S. Department of Health and Human Services	Department of Human Services	TANF Cluster (93.558)	Activities Allowed or Unallowed/ Allowable Costs/ Cost Principles/ Eligibility/ Subrecipient Monitoring	2016-004
U.S. Department of Health and Human Services	Department of Human Services	Medicaid Cluster (93.775, 93.777, 93.778)	Activities Allowed or Unallowed/ Allowable Costs/ Cost Principles/ Eligibility/ Subrecipient Monitoring	2016-005
U.S. Department of Health and Human Services	Department of Human Services	Medicaid Cluster (93.775, 93.777, 93.778)	Special Tests and Provisions - Inpatient Hospital and Long-Term Care Facility Audits	2016-006
U.S. Department of Homeland Security	Department of Law and Public Safety	Hazard Mitigation Grant (97.039)	Allowable Costs/ Cost Principles	2016-007
U.S. Department of Homeland Security	Department of Law and Public Safety	Homeland Security Grant Program (97.067)	Equipment	2016-008
U.S. Department of Homeland Security	Department of Law and Public Safety	Disaster Grants - Public Assistance (Presidentially Declared Disasters) (97.036)	Allowable Costs/ Cost Principles	2016-009
U.S. Department of Homeland Security	Department of Law and Public Safety	Disaster Grants - Public Assistance (Presidentially Declared Disasters) (97.036)	Reporting	2016-010
U.S. Department of Transportation	Department of Law and Public Safety	Highway Safety Cluster (20.600, 20.601, 20.612, 20.616)	Subrecipient Monitoring	2016-011
U.S. Department of Defense	Department of Military and Veterans Affairs	National Guard Military Operations and Maintenance (O&M) Projects (12.401)	Allowable Costs/ Cost Principles	2016-012

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to that program.



Qualified Opinion

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of the major Federal programs identified in the Basis for Qualified Opinion paragraph for the year ended June 30, 2016.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major Federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-003, 2016-013, 2016-014, 2016-015, 2016-016, 2016-017, 2016-018, 2016-019, 2016-020, 2016-021, 2016-022, 2016-024, 2016-025, 2016-027, 2016-028, 2016-029, 2016-030, 2016-031, and 2016-032. Our opinion on each major Federal program is not modified with respect to these matters.

The State's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002, 2016-004, 2016-005, 2016-006, 2016-007, 2016-008, 2016-009, 2016-010, 2016-011, and 2016-012 to be material weaknesses.



A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-03, 2016-013, 2016-014, 2016-015, 2016-016, 2016-017, 2016-018, 2016-019, 2016-020, 2016-021, 2016-022, 2016-023, 2016-024, 2016-025, 2016-026, 2016-027, 2016-028, 2016-029, 2016-030, 2016-031, 2016-032, 2016-033, 2016-034, and 2016-035 to be significant deficiencies.

The State's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

Short Hills, New Jersey
March 29, 2017

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

(1) Summary of Auditors' Results

Basic Financial Statements

- (a) An unmodified opinion was issued by the State Auditor, State of New Jersey, on the basic financial statements of the State of New Jersey as of and for the year ended June 30, 2016, which were prepared in accordance with generally accepted accounting principles.
- (b) The audit by the State Auditor, State of New Jersey, disclosed no material weaknesses and no significant deficiencies in connection with the basic financial statements of the State of New Jersey as of and for the year ended June 30, 2016.
- (c) The audit by the State Auditor, State of New Jersey disclosed no instances of noncompliance which are material to the basic financial statements of the State of New Jersey as of and for the year ended June 30, 2016.

Single Audit

- (d) This audit of Federal financial assistance disclosed material weaknesses and significant deficiencies which were reported in connection with major Federal programs of the State of New Jersey for the year ended June 30, 2016.
- (e) The type of report issued on compliance for major programs:

Qualifications:

- Medicaid Cluster
- TANF Cluster
- Social Services Block Grants
- Disaster Grants – Public Assistance (Presidentially Declared Disasters)
- Homeland Security Grant Program
- Hazard Mitigation Grant
- Highway Safety Cluster
- National Guard Military Operations and Maintenance (O&M) Projects

The opinions for all other major programs are unmodified.

- (f) There were audit findings which are required to be reported in accordance with 2 CFR 200.516(a) for the year ended June 30, 2016.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- (g) The major Federal programs of the State of New Jersey for the year ended June 30, 2016 were as follows:

U.S. Department of Agriculture:

- Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)
- Special Supplemental Nutrition Program for Women, Infants, and Children (10.557)
- Child and Adult Care Food Program (10.558)

U.S. Department of Defense:

- National Guard Military Operations and Maintenance (O&M) Projects (12.401)

U.S. Department of Housing and Urban Development:

- Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (14.228)

U.S. Department of Labor:

- Unemployment Insurance (17.225)
- WIA/WIOA Cluster (17.258, 17.259, 17.278)

U.S. Department of Transportation:

- Highway Safety Cluster (20.600, 20.601, 20.612, 20.616)

U.S. Environmental Protection Agency:

- Clean Water State Revolving Fund Cluster (66.458)

U.S. Department of Education:

- Title I Grants to Local Educational Agencies (84.010)
- Special Education Cluster (IDEA) (84.027, 84.173)
- Improving Teacher Quality State Grants (84.367)

U.S. Department of Health and Human Services:

- Public Health Emergency Preparedness (93.069)
- Immunization Cooperative Agreements (93.268)

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program (93.505)
- TANF Cluster (93.558)
- Low-Income Home Energy Assistance (93.568)
- CCDF Cluster (93.575, 93.596)
- Social Services Block Grant (93.667)
- Medicaid Cluster (including ARRA) (93.775, 93.777, 93.778)
- National Bioterrorism Hospital Preparedness Program (93.889)
- HIV Care Formula Grants (93.917)

U.S. Department of Homeland Security:

- Disaster Grants – Public Assistance (Presidentially Declared Disasters) (97.036)
- Hazard Mitigation Grant (97.039)
- Homeland Security Grant Program (97.067)

(h) The dollar threshold used to distinguish between type A and type B programs was \$31,757,211 for Federal awards for the year ended June 30, 2016.

(i) The State of New Jersey did not qualify as a low risk auditee for the year ended June 30, 2016.

(2) Findings Related to the Basic Financial Statements Reported in Accordance with *Government Auditing Standards*:

None

(3) Findings and Questioned Costs Relating to Federal Awards:

See appendix of findings items 2016-001 to 2016-035.

APPENDIX OF FINDINGS

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Social Services Block Grant (93.667)

Award Years: October 1, 2015 to September 30, 2017; October 1, 2014 to September 30, 2016; and October 1, 2013 to September 30, 2015

Award Numbers: 2016G992342; 2015G992342; and 2014G992342

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department Children and Families

Federal Agency: U.S. Department of Health and Human Services

Finding: 2016-001 Activities Allowed or Unallowed, Allowable Costs/Cost Principles and Period of Performance

Finding Type: Qualified, Material Weakness

Prior Year Finding: No

Criteria

Compliance

Activities Allowed or Unallowed

The specific requirements for activities allowed or unallowed are unique to each Federal program and are found in the Federal statutes, regulations, and the terms and conditions of the Federal award pertaining to the program. The specific requirements for the Social Services Block Program are provided under 42 USC 1397a and 42 USC 1397(d).

Allowable Costs/Cost Principles

As provided in 2 CFR section 200.101, the cost principles requirements apply to all Federal awards with the exception of grant agreements and cooperative agreements providing food commodities; agreements for loans, loan guarantees, interest subsidies, insurance; and programs listed in 2 CFR section 200.101(d) (see Appendix I of this Supplement). Federal awards administered by publicly owned hospitals and other providers of medical care are exempt from 2 CFR part 200, subpart E, but are subject to the requirements 45 CFR part 75, Appendix IX, the Department of Health and Human Services (HHS) implementation of 2 CFR part 200. The cost principles applicable to a non-Federal entity apply to all Federal awards received by the entity, regardless of whether the awards are received directly from the Federal awarding agency or indirectly through a pass-through entity. For this purpose, Federal awards include cost reimbursement contracts under the Federal Acquisition Regulation (FAR). The cost principles do not apply to Federal awards under which a non-Federal entity is not required to account to the Federal awarding agency or pass-through entity for actual costs incurred.

As discussed in Appendix I of the Compliance Supplement, "Federal Programs Excluded from the A-102 Common Rule and Portions of 2 CFR Part 200," SSBG is exempt from the provisions of the OMB cost principles. State cost principles requirements apply to SSBG.

The State of New Jersey's cost principles follow the same Federal cost principles under 2 CFR 200.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Period of Performance

A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity (2 CFR section 200.309).

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Children and Families (the Department) is responsible for the administration of the Social Services Block Grant (SSBG) program for the State of New Jersey (the State). The Department of Human Services (DHS) was the State conduit agency for SSBG until October 1, 2015, when it transferred over to the Department.

During our testwork over the above requirements, we made a sample of forty other-than-personal service (OTPS) transactions, of which thirty-five were expended under the Federal fiscal year (FFY) 2016 SSBG grant which was awarded under the Uniform Guidance (UG). Of the thirty-five UG samples, we noted four exceptions where the expenditures were incurred prior to the beginning of the FFY 2016 SSBG grant, which began on October 1, 2015. The total of these four exceptions were \$21,024.

Upon further review of the complete transaction detail related to the FFY 2016 SSBG grant, we noted that a total of \$2,147,963 was expended on the FFY 2016 SSBG grant before the period of performance began on October 1, 2015.

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure all SSBG expenditures incurred were within the correct period of performance.

Cause

The Department was unaware of the period of performance requirements and incurred expenditures against the FFY 2016 SSBG grant which occurred before the start of the period of performance for the grant.

Effect

Expenditures were incurred prior to the start of the period of performance and inappropriately charged against the FFY 2016 SSBG grant.

Recommendation

We recommend that the Department implement policies and procedures to review expenditures and ensure that they are allowable and within the correct period of performance for the respective FFY SSBG grant.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

\$2,147,963, representing FFY2016 SSBG expenditures, related to award number 2016G992342, incurred prior to the beginning of the period of performance.

View of Responsible Official

Accepted. State Fiscal Year 2016 was a transition year for the Department of Children and Families (DCF) to take over the administration of the SSBG funding stream from the Department of Human Services (DHS). Moving forward DCF has set forth controls to ensure that expenditures charged against the federal Fiscal Year 2018 SSBG grant were incurred during the award's period of performance. This will be verified through monthly monitoring and review of expenditures for all current and future SSBG awards administered by DCF.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Social Services Block Grant (93.667)

Award Years: October 1, 2015 to September 30, 2017; October 1, 2014 to September 30, 2016; and October 1, 2013 to September 30, 2015

Award Numbers: 2016G992342; 2015G992342; and 2014G992342

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department Children and Families

Federal Agency: U.S. Department of Health and Human Services

Finding: 2016-002 Reporting

Finding Type: Qualified, Material Weakness

Prior Year Finding: No

Criteria

Compliance

45 CFR 96.74 Annual reporting requirements

- A. Annual report. In accordance with 42 U.S.C. 1397e, each state must submit an annual report to the Secretary by the due dates specified in §96.17 of this part. The annual report must cover the most recently completed fiscal year and, except for the data in paragraphs (a) (1) through (4) of this section, may be submitted in the format of the state's choice. The annual report must address the requirements in section 2006(a) of the Act, include the specific data required by section 2006(c), and include other information as follows:
- 1) The number of individuals who receive services paid for in whole or in part with federal funds under the Social Services Block Grant, showing separately the number of children and the number of adults who received such services (section 2006(c)(1));
 - 2) The amount of Social Services Block Grant funds spent in providing each service, showing separately for each service the average amount spent per child recipient and per adult recipient (section 2006(c)(2));
 - 3) The total amount of federal, state and local funds spent in providing each service, including Social Services Block Grant funds;
 - 4) The method(s) by which each service is provided, showing separately the services provided by public agencies, private agencies, or both (section 2006(c)(4)); and
 - 5) The criteria applied in determining eligibility for each service such as income eligibility guidelines, sliding fee scales, the effect of public assistance benefits, and any requirements for enrollment in school or training programs (section 2006(c)(3)).
- B. Reporting requirement.
- 1) Each state must use the uniform definitions of services in appendix A of this part, categories 1-28, in submitting the data required in paragraph (a) of this section. Where a state cannot use the uniform definitions, it should report the data under category 29, "Other Services." The state's definitions of each of the services listed in category 29 must be included in the annual report.
 - 2) Each state must use the reporting form issued by the Department to report the data required in paragraphs (a) (1) through (4) of this section.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- 3) In reporting recipient and expenditure data, each state must report actual numbers of recipients and actual expenditures when this information is available. For purposes of this report, each state should, if possible, count only a single recipient for each service. States should also consider a service provided to a recipient for the length of the reporting period (one year) or any fraction thereof as a single service. Data based on sampling and/or estimates will be accepted when actual figures are unavailable. Each state must indicate for each service whether the data are based on actual figures, sampling, or estimates and must describe the sampling and/or estimation process(es) it used to obtain these data in the annual report. Each state must also indicate, in reporting recipient data, whether the data reflects an unduplicated count of recipients.
- 4) Each state must use category 30, "Other Expenditures," to report non-service expenditures. Only total dollar amounts in this category are required, i.e., they need not be reported by recipient count or cost per adult/child. This will include carry over balances, carry forward balances, funds transferred to or from the SSBG program, and administrative costs as defined by the state.
- 5) Each state must use its own definition of the terms "child" and "adult" in reporting the data required in paragraphs (a) (1) through (5) of this section.
- 6) Each state's definition of "child" and "adult" must be reported as a part of the eligibility criteria for each service required in paragraph (a)(5) of this section. The data on eligibility criteria may be submitted in whatever format the state chooses as a part of its annual report.

C. Transfer of computer data. In addition to making the annual report available to the public and to the Department, a state may submit the information specified in paragraphs (a) (1) through (4) of this section using electronic equipment. A full description of procedures for electronic transmission of data, and of the availability of computer diskettes, is included in appendix B to this part.

An annual report of intended use of funds is required. No cash reports are required. No progress reports are required. A post-expenditure report is required. No performance monitoring is required.

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62)

Condition

The Department of Children and Families (the Department) is responsible for the administration of the Social Services Block Grant (SSBG) program for the State of New Jersey (the State). The Department of Human Services (DHS) was the State conduit agency for SSBG until October 1, 2015, when it transferred over to the Department.

The Department is responsible for the submission of the Post-Expenditure Report (PER). The PER is on the State fiscal year basis. During our testwork, we noted that the Department failed to include the expenditures relating the

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

federal fiscal year (FFY) 2014 and FFY 2015 grants. These expenditures were incurred at different departments within the State and the Department failed to include such expenditures on the PER that was submitted as follows:

Expenditures per Post-Expenditure Report	Expenditures per SEFA	Unreported Expenditures
\$24,081,238	\$36,877,701	\$12,796,463

The Department’s policies and procedures to ensure compliance with the above requirement did not include certain internal controls that were designed properly and operating effectively to ensure all SSBG expenditures incurred by all State departments were included in the PER.

Cause

The Department was unaware that they needed to report all expenditures incurred by other departments within the State on the PER as this was their first year as the conduit agency for SSBG.

Effect

The PER submitted to the Federal Government did not properly report all expenditures spent under the SSBG program by all departments within the State.

Recommendation

We recommend the Department implement policies and procedures for tracking and reporting all SSBG expenditures incurred throughout the State to be reporting in the PER during the State fiscal year.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted. As noted in the finding, this grant was previously administered by DHS. Federal Fiscal Year 2016 was the first year this grant was administered by DCF and there were miscommunications regarding necessary processing for federal reporting. DCF has already implemented significant process enhancements in the areas noted. A schedule for reporting has been created and a review process is in place. Communications are clear and in the future, the reporting shall include all Departments that are recipients of the grant. An amended report was provided to the Administration for Children and Families (ACF) in March 2017. This finding has been remediated as of March 2017.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

National Guard Military Operations and Maintenance (O&M) Projects (12.401)

Hazard Mitigation Grant (97.039)

Public Health Emergency Preparedness (93.069)

National Bioterrorism Hospital Preparedness Program (93.889)

Highway Safety Cluster (20.600, 20.601, 20.612, 20.616)

Award Years: Various

Award Numbers: Various

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Treasury, Office of Management and Budget

Federal Agencies: U.S. Department of Defense
U.S. Department of Homeland Security
U.S. Department of Health and Human Services
U.S. Department of Transportation

Finding: 2016-003 Allowable Costs/Cost Principles

Finding Type: Noncompliance, Significant Deficiency

Prior Year Finding: No

Criteria

Compliance

Section II Costs – Direct Costs are chargeable to grant programs in accordance with Circular Letter A-87 and OASC-10 (2 CFR part 225).

Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave (vacation, family-related, sick or military), employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable provided that the benefits are reasonable and are required by law, non-Federal entity-employee agreement, or an established policy of the non-Federal entity (2 CFR Section 200.431(a)).

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Condition

The State of New Jersey, Department of Treasury, Office of Management and Budget (OMB) prepares a Fringe Benefit Rate Proposal (the Plan) for negotiation with the United States Department of Health and Human Services. The negotiated fringe benefit rate is used by all State agencies, including State colleges, for estimating and computing actual charges for fringe benefit costs related to Federal programs in their indirect cost rate proposals, as well as, for direct billing of fringe benefit costs. The negotiated fringe benefit rate applies to personnel who are members of the Public Employees' Retirement System (PERS), Alternate Benefit Plan (ABP), Teacher's Pension and Annuity Fund (TPAF), and Police and Fire Retirement System (PFRS), and all employees who are not members of a pension plan, but are covered for health benefits.

During the review of the fringe benefits calculation, four errors were identified for the projected calculation.

- (1) The Projected State Salary amounts were based on numbers from FY2013 instead of FY2014 to project the FY2016 salary amounts.
- (2) The amount used for the Projected Pension Bonds debt calculation incorrectly inputted the values for active and eligible members for PERS, PFRS and SPRS.
- (3) For the 2016 projected workers compensation, the 2012 numbers for state work claimants and projected payments amounts were used in the calculation when the 2014 numbers should have been used.
- (4) For the 2016 projected unused sick the actual numbers for FY14 did not agree to supporting documentation. In addition, the prior year numbers (FY2013) did not agree to the prior year amounts.

During the review of the fringe benefits calculation, ten errors were identified for the actual calculation.

- (1) The SFY 2014 Actual amount for State Employees' Health Benefits did not agree to the amount on supporting documentation.
- (2) The Actual College-University amounts did not agree to supporting documentation.
- (3) The amount of Interest income (pro-rated) calculated for Health Benefits was incorrectly calculated.
- (4) The amount for Income- Medicare Part D on the Actual Post-Retirement (PRM) Benefits did not agree to supporting documentation.
- (5) The amount of Interest income (pro-rated) calculated for Dental Benefits was incorrectly calculated and did not match the supporting documentation.
- (6) The amount of Interest income (pro-rated) calculated for Prescription Drug Plan Benefits was incorrectly calculated and did not match the supporting documentation.
- (7) The amount of Interest income (pro-rated) calculated for Post-Retirement Prescription Drug Plan Benefits was incorrectly calculated.
- (8) The Actual pension Bonds Debt Service allocation included the incorrect amount for State and Local, Active members for 2013, 2014 and 2016 Budget Estimate for PERS, PFRS, SPRS. The amounts did not agree to the Budget Book provided by OMB.
- (9) For the 2016 actual workers compensation, the amount for payments made to claimants' numbers were incorrectly carried over from the prior year.
- (10) For the 2016 actual unused sick leave the amounts related to PFRS, PERS, TPAF did not agree to supporting documentation because they were not put into the pension fund code correctly.

This error was not detected through OMB's review process prior to submission of the Plan to the Federal Government. This error impacted both the calculation of the negotiated PERS and PFRS fringe benefit rate. If the

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

error did not occur, the PERS fringe benefit rate would have been negotiated at 36.2% instead of 37.6%. The PFRS fringe benefit rate would have been negotiated at 46.3% instead of 45.1 %.

Programs that utilized the PERS rate:

- National Guard Military Operations and Maintenance (O&M) Projects
- Hazard Mitigation Grant
- Public Health Emergency Preparedness
- National Bioterrorism Hospital Preparedness Program

Programs that utilized the PFRS rate:

- Hazard Mitigation Grant

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure any manual errors in the rate calculations were properly detected or prevented during the review process.

Cause

There was a manual error data entering certain amounts in the spreadsheets utilized to calculate the fringe benefit rate that was not detected through OMB's review process.

Effect

The State of New Jersey utilized an incorrect fringe benefit rate for PERS and PFRS in State fiscal year 2016.

Recommendation

We recommend that OMB strengthen its procedures in the preparation and review of the Plan to ensure that all costs and amounts entered to prepare the proposed fringe benefits rates are correct.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirements.

Questioned Costs

Cannot be determined

View of Responsible Official

Accepted. The Department of the Treasury-Office of Management and Budget (OMB) agrees with the finding and has implemented the appropriate remedial procedures. The errors noted for the projected calculation and the actual calculation were attributable to posting errors and/or manual inputs that were not updated for the Fiscal Year 2016 plan submission. Additional supervisory review has been added to the process to reduce the risk of calculation errors going undetected and to ensure that future plan submissions are accurate.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

TANF Cluster (93.558)

Award Years: October 1, 2010 to September 30, 2011; October 1, 2011 to September 30, 2012; October 1, 2012 to September 30, 2013; October 1, 2013 to September 30, 2014; October 1, 2014 to September 30, 2015; and October 1, 2015 to September 30, 2016

Award Numbers: 1102NJTANF; 1202NJTANF; 1302NJTANF; 1402NJTANF; 1502NJTANF; and 1601NJTANF

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 2016-004 Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Subrecipient Monitoring

Finding Type: Qualified, Material Weakness

Prior Year Finding: Yes, a similar finding was included in the 2015, 2014, 2013, 2012, and 2011 prior year single audit reports as items 2015-042, 2014-043, 2013-002, 12-43, and 11-6, respectively

Criteria

Compliance

Eligibility

Split Eligibility Determination Functions - Some non-Federal entities pay the Federal benefits to the eligible participants but arrange with another entity to perform part or all of the eligibility determination. For example, a State arranges with local government social services agencies to perform the “intake function” (e.g., the meeting with the social services client to determine income and categorical eligibility) while the State maintains the computer systems supporting the eligibility determination process and actually pays the benefits to the participants. In such cases, the State is fully responsible for Federal compliance for the eligibility determination, as the benefits are paid by the State. Moreover, the State shows the benefits paid as Federal awards expended on the State’s Schedule of Expenditures of Federal Awards. Therefore, the auditor of the State is responsible for meeting the internal control and compliance audit objectives for eligibility. This may require the auditor of the State to perform, coordinate, or arrange for additional procedures to ensure compliant eligibility determinations when another entity performs part of the eligibility determination functions. The responsibility of the auditor of the State for auditing eligibility does not relieve the auditor of the other entity (e.g., local government) from responsibility for meeting those internal control and compliance audit objectives for eligibility that apply to the other entity’s responsibilities. An exception occurs when the auditor of the other entity confirms with the auditor of the State that certain procedures are not necessary.

The State of New Jersey has submitted the State plan to the Secretary outlining how the state intends to conduct the Temporary Assistance for Needy Families program. In accordance with 42 USC 602 (a)(1)(B)(iii), “The document shall set forth objective criteria for the delivery of benefits and the determination of eligibility and for fair and equitable treatment, including an explanation of how the State will provide opportunities for recipients who have been adversely affected to be heard in a State administrative or appeal process.”

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Excerpt from New Jersey State Plan for Temporary Assistance for Needy Families:

Families applying for WFNJ cash assistance must comply with certain requirements in order to apply for WFNJ benefits. They must cooperate with child support requirements in order to establish paternity, and obtain, modify, or enforce child support and medical support orders, and, they must assign all rights to child and spousal support to the county agency. Once the family cooperates with child support, the family must agree to cooperate with work requirements. The initial step in the WFNJ work requirement process is registering for work with the OSCC, unless the individual is deferred from the work requirement. Once the family has demonstrated compliance with these requirements, the application process for WFNJ benefits may proceed. As part of the application process, families must:

- Be income and resource eligible,
- Provide all necessary documentation,
- Sign an Agreement to repay benefits in the event of receipt of income or resources,
- Obtain and provide a Social Security Number for all members of the assistance unit, and
- Comply with personal identification requirements, which may employ the use of systems technology processes for the detection of fraud.

When a family fails to comply with any of these requirements at the time of application or redetermination, the entire assistance unit is ineligible for WFNJ benefits. Families determined ineligible as a result of any of the requirements listed may reapply at any time and have their eligibility determined, provided they comply with all requirements.

An integral part of the ongoing self-sufficiency process for cash assistance recipients is the development of an Individual Responsibility Plan (IRP). This plan serves to identify the mutual obligations of both the participant and the county agency. Included in the plan are steps to be taken by the participant to achieve self-sufficiency, identification of any barriers to employment, and identification of any support services that the agency will provide to assist the family's activities that are geared toward self-sufficiency. The IRP is a living document that is updated each time a participant enters a new activity or at the time of redetermination, in order that changes in family circumstances may be addressed, including the need for supportive services. WFNJ/TANF cases are redetermined for eligibility at least every 12 months.

Subrecipient Monitoring

A pass-through entity (PTE) must:

- *Monitor* – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.331(d) through (f)). In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:
 1. Reviewing financial and programmatic (performance and special reports) required by the PTE.
 2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

3. Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

TANF funds may be used for expenditures for activities that are not permissible under 42 USC 601, but for which the State was authorized to use Title IV-A or IV-F funds under prior law. The previously authorized activities must have been included in a State's approved State AFDC plan, JOBS plan, or Supportive Services Plan, as in effect on September 30, 1995, or at the State's option, on August 21, 1996. Examples of such activities are authorized juvenile justice and foster care activities (42 USC 604(a)(2); 45 CFR section 263.11(a)(2)).

Funds may be used in any manner reasonably calculated to accomplish the purposes of the program, including providing low-income households with assistance in meeting home heating and cooling costs (42 USC 604(a)(1) and 45 CFR section 263.11(a)(1)). As specified in 42 USC 601 and 45 CFR section 260.20, the TANF program has the following purposes; provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives, end dependence of needy parents on government benefits by promoting job preparation, work, and marriage, prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies, and encourage the formation and maintenance of two-parent families.

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Human Services, Division of Family Development (the Department) is the agency responsible for administration of the TANF Cluster (TANF) in the State of New Jersey (the State). The Department has arranged with the County Welfare Agencies (CWAs) to perform the eligibility determinations and redeterminations for TANF. The CWAs collect and maintain supporting documentation for each eligibility determination and redetermination in a case file that is subject to review by the Department's Quality Control Unit as part of the Department's subrecipient monitoring procedures. The State pays the TANF benefits to eligible recipients and is ultimately responsible for the accuracy of the eligibility determinations and redeterminations made by the CWAs. Our audit included a review of case files to determine if the State was conducting and maintaining support in accordance with Federal requirements and the requirements as outlined in the State Plan submitted to the Federal Government.

For a sample of sixty-five TANF beneficiaries selected for testwork at the CWAs, the following were noted:

- For four beneficiaries, there was no case file provided by the respective CWA during the audit to support the eligibility determination made. Total TANF benefits paid to these individuals during State fiscal year 2016 was \$76,167 and are considered questioned costs as no evidence to support the eligibility for this case was provided during the audit.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- For two beneficiaries, there was no evidence of a current year redetermination of eligibility in the case file. The State Plan submitted by the State indicates “all WFNJ/TANF cases are redetermined for eligibility at least every 12 months”. The State Plan (as referenced in the criteria above) details what is required of applicants upon initial application and at the time of redetermination. In accordance with the State Plan, the State committed to conduct redeterminations of eligibility every 12 months. Total TANF benefits paid to these individuals during State fiscal year 2016 were \$26,582 and are considered questioned costs and noncompliance with the requirements outlined by the Department in the State Plan.
- For seven beneficiaries, there was no evidence of a prior year redetermination of eligibility in the case file. The State Plan submitted by the State indicates “all WFNJ/TANF cases are redetermined for eligibility at least every 12 months”. The State Plan (as referenced in the criteria above) details what is required of applicants upon initial application and at the time of redetermination. In accordance with the State Plan, the State committed to conduct redeterminations of eligibility every 12 months. Total TANF benefits paid to these individuals during State fiscal year 2016 was \$84,644. We consider \$48,249 to be the questioned costs as those were the funds that were issued to the beneficiary during the time in which a redetermination was not made in the 12 months’ timeframe. These beneficiaries are in noncompliance with the requirements outlined by the Department in the State Plan.
- For two beneficiaries, there was no evidence of a current year and a prior year redetermination of eligibility in the case file. The State Plan submitted by the State indicates “all WFNJ/TANF cases are redetermined for eligibility at least every 12 months”. The State Plan (as referenced in the criteria above) details what is required of applicants upon initial application and at the time of redetermination. In accordance with the State Plan, the State committed to conduct redeterminations of eligibility every 12 months. Total TANF benefits paid to these individuals during State fiscal year 2016 were \$18,330 and are considered questioned costs and noncompliance with the requirements outlined by the Department in the State Plan.
- For one beneficiary, the file did not contain proof of U.S. citizenship to support the eligibility determination. According to the State Plan, “only those persons who are either United States citizens or eligible noncitizens shall be eligible for WFNJ/TANF benefits”. According to the OMB Uniform Guidance compliance supplement, “qualified aliens, as defined in 8 USC 1641(b), are the only non-citizens who may receive a TANF public benefit, as defined in 8 USC 1611(c)”. Total TANF benefits paid to these individuals during State fiscal year 2016 were \$5,361 and are considered questioned costs as there was no evidence in the file that supported the CWA verified the beneficiary was a U.S. citizen or eligible noncitizen and, therefore, was not in compliance with the requirements outlined by the Department in the State Plan or the OMB Uniform Guidance compliance supplement.

The Department’s policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure eligibility determinations and redeterminations at the CWAs were being performed properly and in a timely manner.

Cause

Evidence supporting the eligibility determinations and redeterminations were not included in the files at the CWAs or provided during the audit.

Effect

Payments under the TANF program may be processed on behalf of ineligible clients for services received in a given State fiscal year.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Recommendation

We recommend that the Department strengthen its subrecipient monitoring procedures over the CWAs to ensure eligibility determinations and redeterminations are maintained within the files and are performed and reviewed on a timely basis.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirements.

Questioned Costs

In total, questioned costs cannot be determined; for specific questioned costs, see Condition above. All questioned costs relate to various award numbers for the TANF program.

View of Responsible Official

Accepted. The Division of Family Development (DFD), Office of County Operations (OCO) is attempting to locate the misplaced files. In 2016, DFD consolidated all TANF reviews within one designated unit, Management Evaluations (ME) and this process has proven to be effective with timeliness reviews indicating a 94% compliance rate. County operations will continue to work with ME in addressing identified deficiencies. In addition, DFD will advise and remind all County Welfare Agencies (CWAs) of the importance of maintaining and safeguarding complete and accurate client files so they are readily available and retrievable.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Medicaid Cluster (93.775, 93.777, 93.778)

Award Years: October 1, 2005 to September 30, 2006; October 1, 2006 to September 30, 2007; October 1, 2007 to September 30, 2008; October 1, 2008 to September 30, 2009; October 1, 2009 to September 30, 2010; October 1, 2010 to September 30, 2011; October 1, 2011 to September 30, 2012; October 1, 2012 to September 30, 2013; October 1, 2013 to September 30, 2014; October 1, 2014 to September 30, 2015; and October 1, 2015 to September 30, 2016

Award Numbers: 0605NJ5028; 0705NJ5028; 0805NJ5028; 0905NJ5028; 1005NJ5MAP; 1105NJ5MAP; 1205NJ5MAP; 1305NJ5MAP; 1405NJ5MAP; 1505NJ5MAP; and 1605NJ5MAP

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 2016-005 Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Subrecipient Monitoring

Finding Type: Qualified, Material Weakness

Prior Year Finding: Yes, a similar finding was included in the 2015, 2014, 2013, 2012, 2011, 2010, 2009, 2008, and 2007 prior year single audit reports as items, 2015-041, 2014-052, 2013-001, 12-1, 11-2, 10-1, 09-1, 08-1, and 07-42, respectively

Criteria

Compliance

Eligibility

Split Eligibility Determination Functions - Some non-Federal entities pay the Federal benefits to the eligible participants but arrange with another entity to perform part or all of the eligibility determination. For example, a State arranges with local government social services agencies to perform the “intake function” (e.g., the meeting with the social services client to determine income and categorical eligibility) while the State maintains the computer systems supporting the eligibility determination process and actually pays the benefits to the participants. In such cases, the State is fully responsible for Federal compliance for the eligibility determination, as the benefits are paid by the State. Moreover, the State shows the benefits paid as Federal awards expended on the State’s Schedule of Expenditures of Federal Awards. Therefore, the auditor of the State is responsible for meeting the internal control and compliance audit objectives for eligibility. This may require the auditor of the State to perform, coordinate, or arrange for additional procedures to ensure compliant eligibility determinations when another entity performs part of the eligibility determination functions. The responsibility of the auditor of the State for auditing eligibility does not relieve the auditor of the other entity (e.g., local government) from responsibility for meeting those internal control and compliance audit objectives for eligibility that apply to the other entity’s responsibilities. An exception occurs when the auditor of the other entity confirms with the auditor of the State that certain procedures are not necessary.

Eligibility for Medicaid is based on financial (e.g., income/resources) and non-financial (e.g., age, pregnancy, disability, citizenship/immigration status) criteria. The States must cover mandatory eligibility groups. States may provide coverage to members of optional groups and medically needy individuals (individuals who are eligible for

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Medicaid after deducting medical expenditures from their income). Eligibility criteria will be specified in the individual State plan.

States must provide limited Medicaid coverage for “Qualified Medicare Beneficiaries” (QMB). These are aged and disabled persons who are entitled to Medicare Part A, whose income does not exceed 100 percent of the Federal poverty level, and whose resources do not exceed three times the SSI resource limit, adjusted annually by the increase in the consumer price index (Section 1860D-14(a)(3)(D) of the Social Security Act (42 USC 1395w-114)).

The State plan will specify if determinations of eligibility are made by agencies other than the State Medicaid agency and will define the relationships and respective responsibilities of the State Medicaid agency and the other agencies. States must allow individuals and families to apply online, by telephone, via mail, or in person and must require that all initial applications are signed under penalty of perjury. Electronic, including telephonically recorded, signatures and handwritten signatures transmitted via any other electronic transmission must be accepted. The State agency must have facts in the case record to support the agency’s eligibility determination, including a record of having verified citizenship or immigration status for each individual. The State must provide notice of its decision concerning eligibility and provide timely and adequate notice of the basis for discontinuing assistance. (42 CFR sections 435.907, 435.913, and 435.914; 42 USC 1320b-7).

Subrecipient Monitoring

A pass-through entity (PTE) must:

- *Identify the Award and Applicable Requirements* – Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR section 200.331(a)(3)).
- *Evaluate Risk* – Evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.331(b)). This evaluation of risk may include consideration of such factors as the following:
 1. The subrecipient’s prior experience with the same or similar subawards;
 2. The results of previous audits including whether or not the subrecipient receives single audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;
 3. Whether the subrecipient has new personnel or new or substantially changed systems; and
 4. The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).
- *Monitor* – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.331(d) through (f)). In addition to procedures identified as necessary based

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:

1. Reviewing financial and programmatic (performance and special reports) required by the PTE.
2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
3. Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

To be allowable, Medicaid costs for medical services must be (1) covered by the State plan and waivers; (2) reviewed by the State consistent with the State's documented procedures and system for determining medical necessity of claims; (3) properly coded; and (4) paid at the rate allowed by the State plan. Additionally, Medicaid costs must be net of beneficiary cost-sharing obligations and applicable credits (e.g., insurance, recoveries from other third parties who are responsible for covering the Medicaid costs, and drug rebates), paid to eligible providers, and only provided on behalf of eligible individuals (42 CFR sections 431, 433, 435, 440, and 1396)

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Human Services, Division of Medical Assistance and Health Services (the Department), is the primary agency responsible for the administration of the Medicaid Cluster (Medicaid) for the State of New Jersey (the State). The Department utilizes the County Welfare Agencies (CWAs) to perform eligibility determinations and redeterminations for Medicaid. The CWAs collect and maintain supporting documentation for each eligibility determination and redetermination in a case file. The State pays the Medicaid benefits on behalf of eligible beneficiaries to providers and is ultimately responsible for the accuracy of the eligibility determinations and redeterminations made by the CWAs.

The Department's subrecipient monitoring procedures over eligibility determinations and redeterminations at the CWAs relies on reviews performed by the Bureau of Quality Control (BQC). The BQC performed 569 MEQC eligibility reviews for Medicaid benefits paid on behalf of eligible individuals to providers for the period of July 1, 2015 through June 30, 2016 (State fiscal year 2016). BQC also performed 124 targeted reviews requested by the Office of Eligibility during State fiscal year 2016. The total cases reviewed by the BQC for these various categories were in accordance with the number of cases mandated for review by CMS for the audit period.

As of June 2016, according to the State's internal tracking system, the average redetermination percentage performed was 76.89% across all CWAs. There were 20.68% with no redeterminations done within the last 12 months and 2.43% with no evidence of a redetermination date.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Despite actions taken by the Department to address the prior year findings, we noted for a sample of ninety-five Medicaid beneficiaries selected for testwork at the CWAs, the following:

- For three beneficiaries selected for testwork, the CWA was unable to provide the file to support the eligibility determination made. Total Medicaid benefits paid on behalf of these individuals during State fiscal year 2016 were \$104,976.
- For twenty-one beneficiary selected for testwork, the CWA provided a file, but there was no evidence in the file to support the eligibility determination made. Total Medicaid benefits paid on behalf of this individual during State fiscal year 2016 were \$1,656,205.
- For eight beneficiaries selected for testwork, the file contained a current year redetermination, however the prior redetermination was not made within the required timeframe, including consideration for the twelve-month waiver period for redeterminations. Further, for one of these eight beneficiaries, the file did not contain proof of U.S. citizenship, proof of New Jersey residency verification or proof of Social Security number verification. Total Medicaid benefits paid on behalf of these individuals during State fiscal year 2016 were \$739,933.
- For three beneficiaries selected for testwork, there was no evidence of a current year redetermination of eligibility within the case file, including the consideration of the twelve-month waiver period for redeterminations. Total Medicaid benefits paid on behalf of these individuals during State fiscal year 2016 were \$88,956.
- For two beneficiaries selected for testwork, the files did not contain proof of Social Security number verification, proof of New Jersey residency verification or verification of resource limit to support the current redetermination. Total Medicaid benefits paid on behalf of these individuals during State fiscal year 2016 was \$137,858.

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure eligibility determinations and redeterminations at the CWAs were being performed properly and in a timely manner.

We consider these payments above to be questioned costs. Total program expenditures for Medicaid included on the Schedule of Expenditures of Federal Awards were \$ 9,124,306,684 for State fiscal year 2016.

Cause

The CWAs are not properly determining and redetermining eligibility for Medicaid recipients.

Effect

Payments under the Medicaid program may be processed on behalf of ineligible clients for services received in a given State fiscal year.

Recommendation

We recommend that the Department continue its efforts, as described above, to strengthen its subrecipient monitoring procedures over the CWAs to ensure eligibility determinations and redeterminations are properly supported, performed and reviewed on a timely basis.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

In total, questioned costs cannot be determined; for specific questioned costs, see Condition above. All questioned costs relate to various award numbers under CFDA No. 93.778 for the Medicaid Cluster.

View of Responsible Official

Accepted. The Bureau of Quality Control (BQC) has worked diligently in becoming and staying current with Centers for Medicare and Medicaid Services (CMS) required activities and reporting. In addition, a solid foundation has been successfully established for enhanced and coordinated DMAHS monitoring for all eligibility determining agencies (EDAs). Aggregate reporting measures were implemented in October 2016 to outline areas of consistent deficiencies by the EDAs. The aggregate reports will support the Office of Eligibility Policy-County Operations in working with EDAs on corrective action for eligibility errors and deficiencies found in the course of quality control reviews.

DMAHS will advise and remind all EDAs of the importance of maintaining and safeguarding complete and accurate client files so that they are readily available and retrievable. The Office of Eligibility (OE) and BQC will continue to emphasize to the EDAs that all cases are to be scanned into the Document Imaging Management System (DIMS) to assure the retention of required documentation while decreasing the need for a paper record.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Medicaid Cluster (93.775, 93.777, 93.778)

Award Years: October 1, 2005 to September 30, 2006; October 1, 2006 to September 30, 2007; October 1, 2007 to September 30, 2008; October 1, 2008 to September 30, 2009; October 1, 2009 to September 30, 2010; October 1, 2010 to September 30, 2011; October 1, 2011 to September 30, 2012; October 1, 2012 to September 30, 2013; October 1, 2013 to September 30, 2014; October 1, 2014 to September 30, 2015; and October 1, 2015 to September 30, 2016

Award Numbers: 0605NJ5028; 0705NJ5028; 0805NJ5028; 0905NJ5028; 1005NJ5MAP; 1105NJ5MAP; 1205NJ5MAP; 1305NJ5MAP; 1405NJ5MAP; 1505NJ5MAP; and 1605NJ5MAP

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 2016-006 Special Test and Provisions

Finding Type: Qualified, Material Weakness

Prior Year Finding: Yes, a similar finding was included in the 2015 and 2014 prior year single audit reports as items 2015-040 and 2014-051, respectively

Criteria

Compliance

Inpatient Hospital and Long-Term Care Facility Audits

The State Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers. The State Medicaid agency must provide for the filing of uniform cost reports for each participating provider. These cost reports are used to establish payment rates. The State Medicaid agency must provide for the periodic audits of financial and statistical records of participating providers. The specific audit requirements will be established by the State Plan (42 CFR section 447.253).

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Human Services, Division of Medical Assistance and Health Services (the Department), is the primary agency responsible for the administration of the Medicaid Cluster (Medicaid) for the State of New Jersey (the State). The Department is responsible for the periodic audits of financial and statistical records of participating providers and establishing audit requirements under the State Plan. Under the State Plan attachment 4.19-D, the Department is required to draft an annual audit plan, including the nursing facilities projected to be audited in a

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

twelve-month period. The Department was not able to provide a copy of their annual audit plan, which would detail the requirements for nursing facility cost reports subject to either desk or field audits on a yearly basis.

In addition, the Department made a decision not to require desk audits to be performed over nursing facility cost reports during State fiscal year 2016, as with State fiscal year 2015 and 2014. The Department moved to Managed Long Term Service and Support (MLTSS) as of July 1, 2014. Therefore, there was budget language included in the State fiscal year 2016 Appropriations Act provided that fee-for-service rates for nursing facilities be based upon audited cost report data from a prior year. As a result, the fee-for-service rates for State fiscal year 2016 were struck using rates in effect on June 30, 2014. Those rates were used as a base and additional funds were added in accordance with the Fiscal Year 2016 Appropriations Act. The Department did not perform the procedures as required in the State Plan and did not have an approved State Plan Amendment from the Centers for Medicare and Medicaid Services (CMS) during State fiscal year 2016, 2015 or 2014 to revise this process.

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure the completion of periodic audits of financial and statistical records of participating providers in the Medicaid program.

Cause

Based on the budget language included in the State fiscal year 2016 Appropriations Act, the Department decided that no desk audits of cost reports would be required for the nursing facilities during State fiscal year 2016. The Department submitted an amendment to CMS, however the amendment has not yet been approved.

Effect

The Department was not in compliance with the requirement due to the amendment not yet being approved.

Recommendation

We recommend that the Department have the State Plan Amendment approved prior to making significant changes in practice.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

Cannot be determined

View of Responsible Official

Accepted. The Division of Aging Services concurs with this finding and recommendation. As stated in the Condition narrative of the audit finding, the Department implemented Managed Long Term Service and Support (MLTSS) as of July 1, 2014 under an approved waiver granted by CMS. Simultaneously, as provided in the State Fiscal Year 2016 Appropriations Act, fee-for-service rates for nursing facilities were based on audited cost report data from a prior year. As a result, the fee-for-service rates for State Fiscal Year 2016 were set using rates in effect on June 30, 2015. The Department continues to monitor the progress of the waiver with CMS. It is not always practicable to delay implementation of a program before CMS has approved it. It is common practice that CMS grants approval in cases on a retroactive basis.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Hazard Mitigation Grant (97.039)

Award Years: April 26, 2007 to April 26, 2015; March 15, 2010 to March 15, 2018; March 12, 2010 to March 12, 2018; March 23, 2010 to March 23, 2018; August 27, 2011 to August 27, 2019; August 13, 2011 to August 13, 2019; September 28, 2011 to September 28, 2019; October 29, 2011 to October 29, 2019; July 19, 2012 to July 19, 2020; and October 26, 2012 to October 26, 2020

Award Numbers: 1694DRNJP00000005; 1867DRNJP00000005; 889DRNJP00000005; 1897DRNJP00000005; 4021DRNJP00000005; 4033DRNJP00000005; 4039DRNJP00000005; 4048DRNJP00000005; 4070DRNJP00000005; and 4086DRNJP00000005

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Law and Public Safety

Federal Agency: U.S. Department of Homeland Security

Finding: 2016-007 Allowable Costs/Cost Principles

Finding Type: Qualified, Material Weakness

Prior Year Finding: No

Criteria

Compliance

Federal OMB Circular A-133

In accordance with OMB Circular A-87, Attachment B, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee (2 CFR part 225)

Uniform Guidance

In accordance with 2 CFR 200.430(i), Compensation – Personal Services, Standards for Documentation of Personnel Expenses, charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- Be incorporated into the official records of the non-Federal entity;

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities;

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Law and Public Safety (the Department) is responsible for administering the Hazard Mitigation Grant program for the State of New Jersey (the State). The Department reports payroll and fringe benefit amounts to the State of New Jersey, Office of Management and Budget (OMB) to be recorded in New Jersey Comprehensive Financial Reporting System (NJCFRS) and the State’s schedule of expenditures of federal awards (SEFA).

The amount reported to OMB for fiscal year 2016 was calculated off data from the eDaily system, which is a time and effort reporting system. The correct amount of payroll reported should have come from Time and Leave Reporting System (TALRS), the payroll reporting system.

The total salaries and fringe benefits charged to the Hazard Mitigation Grant program for the State fiscal year 2016 were \$1,788,383 and \$615,453, respectively. These amounts were understated by \$153,261 and \$55,917 respectively and were subsequently adjusted in the SEFA by OMB to reflect the proper salary and fringe benefit expenditures for the program during State fiscal year 2016.

The Department’s policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure payroll and fringe benefits were reported accurately to OMB.

Cause

The salary and fringe benefit expenditure amounts reported to OMB by the Department to be recorded in NJCFRS and the SEFA were extracted from the wrong system used to report the correct amount of such expenditures. The Department’s policies and procedures were not designed properly to detect and correct the wrong information being reported to OMB.

Effect

Salary and fringe charged to the Hazard Mitigation Grant program may not be accurate.

Recommendation

We recommend that the Department implement policies and procedures to ensure the payroll numbers reported to OMB and recorded in NJCFRS and reported in the SEFA are accurate and supported by the appropriate payroll system.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Questioned Costs

None

View of Responsible Official

Accepted. The spreadsheet formula error identified by this audit has been corrected and the Fiscal Year 2016 Schedule of Expenditures of Federal Awards (SEFA) was adjusted to properly account for these errors. Going forward, the Finance Unit Head will approve all salary and fringe benefit calculations prior to submission to OMB.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Homeland Security Grant Program (97.067)

Award Years: September 1, 2013 to August 31, 2015; September 1, 2014 to August 31, 2016; and September 1, 2015 to August 31, 2018

Award Numbers: EMW-2013SS00032; EMW-2014SS00099; and EMW-2015-SS-00039

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Law and Public Safety

Federal Agency: U.S. Department of Homeland Security

Finding: 2016-008 Equipment

Finding Type: Qualified, Material Weakness

Prior Year Finding: Yes, a similar finding was included in the 2015, 2014, 2013 and 2012 prior year single audit reports as items 2015-025, 2014-009, 2013-037, and 12-21, respectively

Criteria

Compliance

Equipment means tangible personal property, including information technology systems, having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes or \$5,000 (2 CFR section 200.33). Title to equipment acquired by a non-Federal entity under grants and cooperative agreements vests in the non-Federal entity subject to certain obligations and conditions (2 CFR section 200.313(a)).

A State must use, manage, and dispose of equipment acquired under a Federal award in accordance with State laws and procedures (2 CFR section 200.313(b)).

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Office of Homeland Security and Preparedness (OHSP), a division of the Department of Law and Public Safety administers the Homeland Security Grant Program (HSGP) for the State of New Jersey (the State). Various agencies within the State of New Jersey purchase equipment using funds from HSPG. All agencies are required to adhere to the following New Jersey State Office of Management and Budget (OMB) Circulars:

- 11-18-OMB, Capital Assets – this circular sets policies to account for capital assets purchased by the State of New Jersey. It requires capital assets over a specific dollar amount to be reported and accounted for within the Statewide Land and Building Management (LBAM).

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- 11-19-OMB, Asset Inventory Requirements – this circular defines the minimum requirements for to record and maintain equipment inventory purchases (all equipment with an original cost of \$1,000 or more and an expected life of three (3) years or more). It requires agencies to maintain and update a master inventory listing. Inventory records should include the following information:
 - Description of the asset, including type of item, brand name, model, and serial numbers
 - Acquisition date
 - Cost
 - Purchase order and voucher numbers
 - Inventory number (tag control number and/or serial number)
 - Location (LBAM identification number, address of building, building name, floor, etc.)
 - Name of employee charged with custody
 - Source of the monies from which the asset was required (i.e. Federal grants)

Additionally, an annual inventory of all assets is required and must be certified to the Office of Management and Budget (OMB) at year end.

We selected eight equipment purchase order transactions and seventeen individual pieces of equipment from those transactions. Included in our sample were purchases made by OHSP, Division of State Police (DSP), and Office of Information Technology (OIT). Total equipment expenditures for the State fiscal year were \$1,748,996 of which \$1,125,860 (equipment purchase order testwork) and \$911,362 (individual pieces of equipment testwork) were included in our sample.

During our testwork we noted the following:

- The asset inventory listing provided to OMB was missing seven (OHSP) of the equipment transactions in State fiscal year 2016. Additionally, none of these equipment were appropriately tagged and inventoried. Total expenditures for these seven transactions was \$11,212.
- One (DSP) of the equipment transactions was not included on the inventory listing provided to OMB. Total expenditures for this one transaction was \$2,425.
- Three (DSP) equipment transactions were not appropriately tagged and inventoried. Total expenditures for these three transactions were \$79,866.
- Two (DSP) invoices and payment vouchers for equipment transactions were not appropriately reviewed and approved. Total expenditures for these two transactions were \$464,640.
- An asset inventory listing was not provided to OMB for four (OIT) of the equipment transactions. Total expenditures for these four transactions were \$401,545.
- Five (OIT) equipment transactions selected were properly inventoried but the equipment was not tagged with an asset ID. Four of the five transactions represented components used to build radio stations for use in the UASI regions. None of the assets were appropriately recorded in LBAM. The total cost of the components included in our sample for these five transactions was \$687,541.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- Two (DSP) equipment selections were inaccurately recorded in the DSP inventory system and the annual inventory of assets provided to OMB, however the items were provided for inspection to support their existence. The total expenditures for these two pieces of equipment were \$77,440.

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure the equipment purchases are properly inventoried and tracked.

Cause

The Department does not have adequate policies and procedures in place to ensure equipment is appropriately tracked and recorded in accordance with the State policies.

Effect

Equipment purchased with Federal funds is not readily available for inspection and purchases may not be properly safeguarded and maintained.

Recommendation

We recommend that the Department implement policies and procedures to track and identify equipment and to ensure that they are recorded in accordance with State policies.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted. All equipment purchased with federal funds will be reviewed by OHSP to ensure it has been appropriately tagged and inventoried, and that it agrees to the annual inventory of all assets certified to OMB in accordance with Treasury Circular Letter 11-19-OMB. Facilities and IT staff responsible have been reacquainted with our inventory policies. OHSP will concentrate on reviewing Treasury Circular Letter 11-19-OMB as it pertains to inventory records along with reviewing the OHSP Inventory Policy.

The Division of State Police (DSP) and OIT will be contacted and advised of these findings. OHSP will work with these partners in order to correct this finding. The DSP and OIT will be advised to concentrate on reviewing Treasury Circular Letter 11-19-OMB as it pertains to inventory records along with reviewing each agency's inventory policy.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Disaster Grants – Public Assistance (Presidentially Declared Disasters) (97.036)

Award Years: April 26, 2007 to April 26, 2015; March 15, 2010 to March 15, 2018; March 23, 2010 to March 23, 2018; March 12, 2010 to March 12, 2018; August 27, 2011 to August 27, 2019; August 13, 2011 to August 13, 2019; September 28, 2011 to September 28, 2019; October 29, 2011 to October 29, 2019; July 19, 2012 to July 19, 2020; and October 26, 2012 to October 26, 2020

Award Numbers: 1694DRNJP000000001; 1867DRNJP000000001; 1889DRNJP000000001; 1897DRNJP000000001; 4021DRNJP000000001; 4033DRNJP000000001; 4039DRNJP000000001; 4048DRNJP000000001, 4070DRNJP000000001; and 4086DRNJP000000001

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Law and Public Safety

Federal Agency: U.S. Department of Homeland Security

Finding: 2016-009 Allowable Costs/Cost Principles

Finding Type: Qualified, Material Weakness

Prior Year Finding: No

Criteria

Compliance

Federal OMB Circular A-133

In accordance with OMB Circular A-87, Attachment B, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee (2 CFR part 225).

Uniform Guidance

In accordance with 2 CFR 200.430(i), Compensation – Personal Services, Standards for Documentation of Personnel Expenses, charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- Be incorporated into the official records of the non-Federal entity;

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities;

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Law and Public Safety (the Department) is responsible for administering the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program (the Program) for the State of New Jersey (the State). The Department reports and fringe benefit amounts to the State of New Jersey Office of Management and Budget (OMB) to be recorded in New Jersey Comprehensive Financial System (NJCFIS) and the State’s schedule of expenditures of federal awards (SEFA).

The amount reported to OMB for fiscal year 2016 was calculated off data from the eDaily system, which is a time and effort reporting system. The correct amount of payroll reported should have come from the Time and Leave Reporting System (TALRS), the payroll reporting system.

The total salaries and fringe benefits charged to the Program for State fiscal year 2016 were \$4,126,772 and \$966,922, respectively. These amounts were understated by \$324,865 and \$172,090 respectively and were subsequently adjusted in the SEFA by OMB to reflect the proper salary and fringe benefit expenditures for the program during State fiscal year 2016.

The Department’s policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure payroll and fringe benefits were reported accurately to OMB.

Cause

The salary and fringe benefit expenditure amounts reported to OMB by the Department to be recorded in NJCFIS and the SEFA were extracted from the wrong system used to report the correct amount of such expenditures. The Department’s policies and procedures were not designed properly to detect and correct the wrong information being reported to OMB.

Effect

Salary and fringe benefit expenditures charged to the Program may not be accurate.

Recommendation

We recommend that the Department implement policies and procedures to ensure the payroll numbers reported to OMB and recorded in NJCFIS and reported in the SEFA are accurate and supported by the appropriate payroll system.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted. The spreadsheet formula error identified by this audit has been corrected and the Fiscal Year 2016 SEFA was adjusted to properly account for these errors. Going forward, the Finance Unit Head will approve all salary and fringe benefit calculations prior to submission to OMB.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Disaster Grants – Public Assistance (Presidentially Declared Disasters) (97.036)

Award Years: June 23, 2015 to June 23, 2023 and October 26, 2012 to October 26, 2020

Award Numbers: 4231DRNJ00000001 and 4086DRNJP00000005

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Law and Public Safety

Federal Agency: U.S. Department of Homeland Security

Finding: 2016-010 Reporting

Finding Type: Qualified, Material Weakness

Prior Year Finding: Yes, a similar finding was included in the 2015 prior year single audit report as item 2015-012

Criteria

Compliance

Federal Financial Report (FFR) (SF-425/SF-425A (OMB No. 0348-0061))

Recipients use the FFR as a standardized format to report expenditures under Federal awards, as well as, when applicable, cash status (Lines 10.a, 10.b, and 10c). References to this report include its applicability as both a financial status and a cash report unless otherwise indicated (2 CFR Section 200.327)

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Law and Public Safety (the Department) is the primary agency responsible for the administration of the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program (the Program) for the State of New Jersey (the State) and is required to submit quarterly SF-425 Federal Financial Reports (FFRs) for the Program. We selected nine FFRs submitted for the State fiscal year 2016. For two of the nine FFRs selected, the reports contained the following errors:

<u>Disaster</u>	<u>Line Item</u>	<u>Quarter</u>	<u>Amount Reported</u>	<u>Correct Amount</u>
DR4231	Total recipient share required	3/31/16	\$2,992,072.11	\$3,989,429.47
DR4231	Recipient share of expenditures	3/31/16	\$1,780,155.79	\$2,373,541.05

STATE OF NEW JERSEY
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2016

<u>Disaster</u>	<u>Line Item</u>	<u>Quarter</u>	<u>Amount Reported</u>	<u>Correct Amount</u>
DR4086	Total Federal funds authorized	9/30/15	\$1,674,231,876.02	\$1,779,490,173.78
DR4086	Total recipient share required	9/30/15	\$186,026,764.00	\$197,721,130.42

There are no questioned costs related to these errors as they did not impact the amount of Federal expenditures charged.

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure the information reported on the SF 425 reports is correct.

Cause

The Department incorrectly reported the "Total recipient share required," "Recipient share of expenditures" and "Total Federal Funds Authorized" on the Federal Financial Reports. The Department's policies and procedures did not detect or correct the incorrect amounts reported.

Effect

Inaccurate amounts were reported on the SF-425 reports.

Recommendation

We recommend that the Department strengthen its policies and procedures to ensure reports are reviewed, approved and verified to ensure completeness and accuracy prior to submission.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted. The Finance Unit has taken remedial steps by changing the review process for Federal Financial Reports (FFRs). Starting with Fiscal Year 2017, the Finance Unit Head will provide final approval and submit the reports after they have been prepared and reviewed by the accountants on staff.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Highway Safety Cluster (20.600, 20.601, 20.612, 20.616)

Award Years: October 1, 2014 to September 30, 2015 and October 1, 2015 to September 30, 2016

Award Numbers: 2015 New Jersey and 2016 New Jersey

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Law and Public Safety

Federal Agency: U.S. Department of Transportation

Finding: 2016-011 Subrecipient Monitoring

Type of Finding: Qualified, Material Weakness

Prior Year Finding: Yes, a similar finding was included in the 2015 prior year single audit report as item 2015-023

Criteria

Compliance

Federal OMB Circular A-133:

A pass-through entity is responsible for:

- *Award Identification* – At the time of the subaward, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.

The requirements for subrecipient monitoring are contained in 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)); 2 CFR sections 200.505, 200.521, and 200.331; A-102 Common Rule (§___.37 and §___.40(a)); OMB Circular A-110 (2 CFR section 215.51(a)); program legislation; 2 CFR section 176.50(c); 2 CFR parts 25 and 170; 48 CFR parts 4, 42, and 52; Federal awarding agency regulations; and the terms and conditions of the award.

Uniform Guidance:

A pass-through entity (PTE) must:

- *Identify the Award and Applicable Requirements* – Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR section 200.331(a)(3)).

According to 2 CFR Section 200.331(a)(1)(xi) all pass-through entities must identify the dollar amount made available under each Federal award and the CFDA number at the time of disbursement.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Law and Public Safety's Office of Highway Traffic Safety (OHTS or the Department) enters into subaward agreements with subrecipients in order to administer the program in the State of New Jersey (the State).

During our testwork we noted the following:

- For all twenty-six subrecipients selected for testwork that were subject to the subrecipient monitoring requirements under Federal OMB Circular A-133, OHTS failed to communicate the name of the Federal awarding agency to the subrecipient. Total funds passed through to the subrecipients that were subject to the subrecipient monitoring requirements under Federal OMB Circular A-133 for these grants during State fiscal year 2016 were \$966,061.
- For all fourteen subrecipients selected for testwork that were subject to the subrecipient monitoring requirements under Uniform Guidance, OHTS failed to communicate the Federal Award Identification Number (FAIN), the name of the Federal Awarding Agency, pass-through entity, and contact information for the awarding official on the subrecipient agreement. Total funds passed through to the subrecipients that were subject to the subrecipient monitoring requirements under Uniform Guidance for these grants during State fiscal year 2016 were \$361,427.
- For all ten subrecipient payments selected for testwork that were subject to the subrecipient monitoring requirements under Uniform Guidance, OHTS failed to communicate the dollar amount made available under each federal award, and the CFDA name and number on each disbursement. The total amount paid to subrecipients for these ten selections during State fiscal year 2016 was \$98,905.
- For three out of forty subrecipients selected for testwork that were subject to the subrecipient monitoring requirements under Federal OMB Circular A-133 and Uniform Guidance, OHTS failed to obtain the DUNS number of the subrecipient. Total funds passed through to the subrecipients that were subject to the subrecipient monitoring requirements under Federal OMB Circular A-133 and Uniform Guidance for these grants during State fiscal year 2016 were \$119,495.
- For one subrecipient selected for testwork that was subject to the subrecipient monitoring requirements under Federal OMB Circular A-133, OHTS failed to properly review and approve the grant application. The application did not contain authorizing signatures from the subrecipient, which are required by OHTS for approval. The total funds passed through to this subrecipient that was subject to the subrecipient monitoring requirements under Federal OMB Circular A-133 during State fiscal year 2016 were \$17,494.

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure communication to

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

subrecipients of all the required elements at the time of the award and of each disbursement as well as proper review and approval of grant applications.

Cause

OHTS does not have policies and procedures in place to communicate the required information to subrecipients in accordance with the applicable requirements under Federal OMB Circular A-133 and 2 CFR section 200.331. Also, OHTS did not ensure that proper review and approval of all subrecipient grant applications was followed in accordance with their current policies and procedures.

Effect

Subrecipients may not receive the required communication of Federal award information necessary to complete their required reporting under 2 CFR section 200.502. Also, subrecipient grant applications may not contain required information necessary for the subrecipient grant awards to be properly approved.

Recommendation

We recommend the Department implement policies and procedures to communicate the Federal Award Identification Number (FAIN), the name of the Federal Awarding Agency, pass-through entity, and contact information for the awarding official on the agreement at the time of award, and to communicate the dollar amount made available under each federal award, and the CFDA name and number on each disbursement. We also recommend that the Department strengthen its policies and procedures to ensure proper review and approval of all subrecipient grant applications and that all required signatures from the subrecipient are included on the application.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

Cannot be determined

View of Responsible Official

Accepted. The Division of Highway Traffic Safety (DHTS) is working on a solution that will communicate the CFDA number at the time of each disbursement until the Treasury-OMB Vendor Payment Inquiry (VPI) system modification described in the last paragraph below is in place.

The DHTS will also incorporate the following information into the subrecipient contract agreement letter that is generated by the System for Administering Grants Electronically (SAGE):

- Name of Federal Awarding Agency;
- Federal Award Identification Number; and
- Contact information of awarding official.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

The grant approval process will include additional program staff reviewers to ensure that all required fields of the subrecipient application (i.e., DUNS number and authorized signatures) are satisfied prior to grant approval.

In addition, OMB has modified its online VPI system to include data fields for CFDA name and number. Enrollment in VPI is available to any vendor or subrecipient doing business with the State and provides users with the ability to obtain detailed payment information for all disbursements processed through the New Jersey Comprehensive Financial System (NJCFIS). https://www20.state.nj.us/TYM_VPI/home.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

National Guard Military Operations and Maintenance (O&M) Projects (12.401)

Award Years: October 1, 2014 to September 30, 2019

Award Numbers: W912KN-16-2-1001; W912KN-16-2-1002; W912KN-16-2-1003; W912KN-16-2-1004; W912KN-16-2-1005; W912KN-16-2-1007; W912KN-16-2-1008; W912KN-16-2-1010; W912KN-16-2-1021; W912KN-16-2-1022; W912KN-16-2-1023; W912KN-16-2-1024; and W912KN-16-2-1040

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Military and Veterans Affairs

Federal Agency: U.S. Department of Defense

Finding: 2016-012 Allowable Costs/Cost Principles

Finding Type: Qualified, Material Weakness

Prior Year Finding: Yes, a similar finding was included in the 2015 and 2014 prior year single audit reports as items 2015-008 and 2014-024, respectively

Criteria

Compliance

Federal OMB Circular A-133

In accordance with OMB Circular A-87, Attachment B, where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee (2 CFR part 225).

Uniform Guidance

In accordance with 2 CFR 200.430(i), Compensation – Personal Services, Standards for Documentation of Personnel Expenses, charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- Be incorporated into the official records of the non-Federal entity;
- Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Military and Veterans Affairs (the Department) is responsible for administering the National Guard Military Operations and Maintenance (O&M) Projects program (O&M Program) for the State of New Jersey (the State). The Department charges salaries and related fringe benefits to the O&M Program for employees who worked on the grant and are required to have a record of their time and effort worked on the grant, which is to be reviewed and approved by both the employee and their supervisor.

We selected a sample of forty personal service cost transactions for employees whose time was charged to the grant and noted that for seven of the forty transactions selected, the Department could not validate that the distribution of activity for the respective employee represented a reasonable estimate of the actual time and effort performed by the employee. Also, neither the employees nor the respective supervisor reviewed and approved the time and effort expended by the individuals working on the grant.

Total personal service costs charged to the O&M Program for the fiscal year ended June 30, 2016 were \$9,300,731, of which \$7,940,582 and \$1,360,149 related to salary and fringe benefit costs, respectively. The amount of personal service costs included in our sample was \$86,567, of which \$11,641 was not properly supported by time and effort reporting and is included in questioned costs below.

Cause

The Department does not have policies and procedures in place to ensure that all personal service costs charged to the O&M Program are supported by time and effort reporting requirements. Also, the Department's internal controls were not operating effectively to ensure all time and effort reports were appropriately reviewed and approved by both the respective employee and supervisor.

Effect

Personal service costs allocated to the O&M Program are not appropriately supported by certifications of actual time and effort as required by OMB Circular A-87, Attachment B and 2 CFR 200.430(i), as applicable.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Recommendation

We recommend that the Department ensure to follow its prescribed policies and procedures for all personal service transactions and ensure that the related internal controls to ensure compliance over time and effort reporting are operating effectively during the entire fiscal year.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

\$11,641, representing personal service costs not properly support by time and effort reporting, related to award numbers W912KN-16-2-1001 and W912KN-16-2-1024.

View of Responsible Official

Accepted. Departmental Directive Number 230.44 titled *Time, Attendance, and Leave Reporting for State Employees* was updated on February 22, 2017 to include sample timesheets for federally reimbursed efforts under CFDA 12.401. The Directive was sent via e-mail to all State employees. Supervisors and timekeepers of federally reimbursed employees were specifically instructed to review timesheet documentation requirements each pay period to ensure compliance before reporting payroll data to the Human Resources Division for payment. The significance, impact and consequences of failure to fully comply with these reporting requirements was stressed to all personnel concerned.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)

Child and Adult Care Food Program (10.558)

Award Year: October 1, 2015 to September 30, 2017

Award Number: INJ300304

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Agriculture

Federal Agency: U.S. Department of Agriculture

Finding: 2016-013 Subrecipient Monitoring

Finding Type: Noncompliance, Significant Deficiency

Prior Year Finding: No

Criteria

Compliance

A pass-through entity (PTE) must:

- *Identify the Award and Applicable Requirements* – Clearly identify to the subrecipient:
 1. the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1);
 2. all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR section 200.331(a)(3)).

- *Evaluate Risk* – Evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.331(b)). This evaluation of risk may include consideration of such factors as the following:
 1. The subrecipient’s prior experience with the same or similar subawards;
 2. The results of previous audits including whether or not the subrecipient receives single audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;
 3. Whether the subrecipient has new personnel or new or substantially changed systems; and
 4. The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- *Monitor* – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.331(d) through (f)). In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:
 1. Reviewing financial and programmatic (performance and special reports) required by the PTE.
 2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
 3. Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.

According to 2 CFR Section 200.331(a)(1)(xi) all pass-through entities must identify the dollar amount made available under each Federal award and the CFDA number at the time of disbursement.

State agencies administering the programs included in the Child Nutrition Cluster are required conduct administrative reviews at least once during a 3-year review cycle in accordance with 7 CFR 201.18.

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Agriculture (the Department) is responsible for administering the Child Nutrition Cluster (CNC) and the Child and Adult Care Food Program (CACFP) for the State of New Jersey (the State).

School districts and independent schools that choose to take part in the CNC get cash subsidies and donated commodities from the State for each meal they serve. In return, they must serve lunches that meet Federal requirements, and they must offer free or reduced-price lunches to eligible children. School food authorities can also be reimbursed for snacks served to children through age 18 in after-school educational or enrichment programs. The Department received a waiver from the United States Department of Agriculture, Food and Nutrition Service, to allow for a 5-year cycle for administrative reviews as opposed to 3-year cycles required by CFR 201.18.

Independent centers and sponsoring organizations enter into agreement with the Department to assume administrative and financial responsibility for CACFP operations. Cash assistance is supplied for meals served to eligible children and adults in day care centers based upon the participant's eligibility under the Income Eligibility Guidelines for free, reduced price, or paid meals. Meals served in homeless shelters and after-school care snacks are reimbursed at the rates for free meals and supplements.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

During our testwork over CNC and CACFP, we noted that for all forty subrecipient selected for testwork for each program, the Department did not do the following as required by 2 CFR Section 200.331:

- Communicate the CFDA number, federal award identification number (FAIN) and indirect cost rate at the time of the award.
- Provide the CFDA number at the time of each disbursement.

Total amount expended for the CNC and CACFP subrecipients during State fiscal year 2016 was \$362,095,788 and \$81,331,527 respectfully. The amount passed through to the forty subrecipients included in our sample for CNC was \$112,636,670 and \$4,834,295 for CACFP.

The Department’s policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure communication to subrecipients of all the required elements at the time of the award and of each disbursement.

Cause

The Department does not have policies and procedures in place to communicate the CFDA number, FAIN and indirect cost rate at the time of the award and provide the CFDA number for each disbursement as required by 2CFR section 200.331.

Effect

Subrecipients may not receive the required communication of Federal award information necessary to complete their required reporting under 2 CFR section 200.502.

Recommendation

We recommend the Department implement policies and procedures to communicate the CFDA number, FAIN and indirect cost rate in the subrecipient’s agreement and provide the CFDA number at the time of each disbursement.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted. The Division of Food & Nutrition instituted process changes on February 1, 2017 to ensure communication of the CFDA number, FAIN and indirect cost rate at the time of subaward. In addition, the appropriate CFDA numbers are now being provided at the time of each disbursement to subrecipients as of January 17, 2017.

A memo was published in the School Nutrition Electronic Application and Reimbursement System (SNEARS) for subrecipients of Child Nutrition Cluster funding and was mailed to subrecipients of Child and Adult Care Food

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Program funding on January 17, 2017 in order to provide the CFDA number, FAIN number and indirect cost rate data for all current year subawards.

In addition, OMB has modified its online VPI system to include data fields for CFDA name and number. Enrollment in VPI is available to any vendor or subrecipient doing business with the State and provides users with the ability to obtain detailed payment information for all disbursements processed through the NJCFS. https://www20.state.nj.us/TYM_VPI/home.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (14.228)

Award Years: July 1, 2008 to June 30, 2016; July 1, 2009 to June 30, 2017; July 1, 2010 to June 30, 2018; July 1, 2011 to June 30, 2019; July 1, 2012 to June 30, 2020; July 1, 2013 to June 30, 2021; July 1, 2014 to June 30, 2022; and July 1, 2015 to September 1, 2022, effective beginning August 27, 2011

Award Numbers: B-08-DC-34-0001; B-09-DC-34-0001; B-10-DC-34-0001; B-11-DC-34-0001; B-12-DC-34-0001; B-13-DC-34-0001; B-14-DC-34-0001; B-15-DC-34-0001; and B-12-DT-34-0001

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Community Affairs

Federal Agency: U.S. Department of Housing and Urban Development

Finding: 2016-014 Reporting

Type of Finding: Noncompliance, Significant Deficiency

Prior Year Finding: Yes, a similar finding was included in the 2015 prior year single audit report as item 2015-049

Criteria

Compliance

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*, (OMB No. 2529-0043) – Each recipient that administers covered public and Indian housing assistance, regardless of the amount expended, and each recipient that administers covered housing and community development assistance in excess of \$200,000 in a program year, must submit HUD 60002 information using the Section 3 Summary Reporting System (24 CFR sections 135.3(a)(1) and 135.90).

Form HUD 60002 has been automated for electronic submission. A new system was launched December 2013 but has been offline to address technical difficulties since January 2014. The status of the system is available at the Section 3 Reporting System status area at <http://www.hud.gov/section3>.

Key Line Items – The following line items contain critical information:

- a. 3. Dollar Amount of Award
- b. 8. Program Code
- c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents
- d. Part II, Contracts Awarded, 1. Construction Contracts
 - (1) A. Total dollar amount of construction contracts awarded on the project
 - (2) B. Total dollar amount of construction contracts awarded to Section 3 businesses
 - (3) D. Total number of Section 3 businesses receiving construction contracts
- e. Part II, Contracts Awarded, 2. Non-Construction Contracts

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- (1) A. Total dollar amount of all non-construction contracts awarded on the project/activity
- (2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
- (3) D. Total number of Section 3 businesses receiving non-construction contracts

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Community Affairs (the Department) administers the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CDBG) program for the State of New Jersey (the State). The Department is responsible for maintaining supporting documents that are used to create the HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons* performance reports (HUD 600002 reports) for CDBG.

We noted that the supporting schedule and worksheet provided by the Department for the HUD 60002 reports (Section 3 Summary Reports) related to State fiscal year 2016 did not agree to what was reported to the Federal government. The amounts are included in the table below.

<u>Program</u>	<u>Line</u>	<u>Reported on Section 3 Summary Report</u>	<u>Reported per Support</u>	<u>Difference</u>
CDBG-DR	(1) A. Total dollar amount of construction contracts awarded on the project	\$ 4,986,661	\$ 4,486,611	\$ 500,000
CDBG-DR	(1) B. Total dollar amount of construction contracts awarded to Section 3 businesses	300,000	0	300,000
CDBG-DR	(2) A. Total dollar amount of all non-construction contracts awarded on the project/activity	672,705	10,269,570	9,596,865
CDBG-DR	(2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses	200,000	0	200,000
Small Cities	(1) A. Total dollar amount of all non-construction contracts awarded on the project/activity	6,608,627	608,627	6,000,000

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure all amounts reported on the HUD 60002 were properly supported by management's supporting schedule and worksheet.

Cause

The Department had incorrectly reported key line items of the Section 3 reports.

Effect

The information reported in the HUD 60002 (Section 3 Summary Reports) is not accurate.

Recommendation

We recommend that the Department strengthen the preparation and review procedures to ensure that accurate data is reported on the HUD 60002 (Section 3 Summary Reports).

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted. The Department of Community Affairs (DCA) will amend the HUD 6002 Section 3 Summary Report submitted in Fiscal Year 2016 and transmit it to HUD no later than April 1, 2017. Prospectively, these reports will undergo a comprehensive quality control review by the Program Manager prior to being transmitted to HUD.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii (14.228)

Award Years: July 1, 2008 to June 30, 2016; July 1, 2009 to June 30, 2017; July 1, 2010 to June 30, 2018; July 1, 2011 to June 30, 2019; July 1, 2012 to June 30, 2020; July 1, 2013 to June 30, 2021; July 1, 2014 to June 30, 2022; and July 1, 2015 to September 1, 2022, effective beginning August 27, 2011

Award Numbers: B-08-DC-34-0001; B-09-DC-34-0001; B-10-DC-34-0001; B-11-DC-34-0001; B-12-DC-34-0001; B-13-DC-34-0001; B-14-DC-34-0001; B-15-DC-34-0001; and B-12-DT-34-0001

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Community Affairs

Federal Agency: U.S. Department of Housing and Urban Development

Finding: 2016-015 Reporting

Type of Finding: Noncompliance, Significant Deficiency

Prior Year Finding: Yes, a similar finding was included in the 2015 and 2014 prior year single audit reports as items 2015-050 and 2014-005, respectively

Criteria

Compliance

Performance and Evaluation Report (PER)

This report is due from each State CDBG grantee within 90 days after the close of its program year. Submission of the PER is done using the instructions in Notice CPD-11-03 (http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/notices/cpd#2011), until HUD advises State CDBG grantees to submit their PERs through the electronic Consolidated Plan template. Among other factors, the report is to include a description of the use of funds during the program year and an assessment of the grantee’s use for the priorities and objectives identified in its plan. The auditor is expected to test only the financial data in this report (24 CFR sections 91.520 (a) and (c)).

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Community Affairs (the Department) administers the Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii (CDBG) program for the State of New Jersey (the State). The Department is responsible for maintaining supporting documents that are used to create the PER for CDBG. The Department prepares the PER on an annual basis. The Department is responsible for maintaining supporting documents that are used to create the financial report which is submitted to the Federal government.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

We noted that the supporting schedule and worksheet provided by the Department for the PER related to State fiscal year 2016 did not agree to what was reported to the Federal government. The amounts are included in the table below.

<u>Grant Year</u>	<u>Line</u>	<u>Reported on PER</u>	<u>Reported per Support</u>	<u>Difference</u>
2012	C. Expenditures of State CDBG Resources 38) Drawn for all other activities	\$ 5,408,595	\$5,401,590	\$ 7,005
2013	C. Expenditures of State CDBG Resources 38) Drawn for all other activities	6,039,582	4,661,480	1,378,102
2014	C. Expenditures of State CDBG Resources 40) Total drawn for all other activities	3,736,819	3,457,839	278,980

The Department’s policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure all amounts reported on the PER were properly supported by management’s supporting schedule and worksheet.

Cause

There was a manual error data entering certain amounts in the spreadsheets utilized to calculate PER report.

Effect

The information reported to the Federal government may not be accurate.

Recommendation

We recommend that the Department strengthen its procedures in the preparation and review of the PER report to ensure that all costs and amounts entered to prepare report are correct.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted. DCA will amend the Performance Evaluation Report (PER) submitted in Fiscal Year 2016 and transmit the amended report to HUD no later than April 1, 2017. Prospectively, PER reports will undergo a comprehensive quality control review by the Division’s Reporting Unit Supervisor and the CDBG Program Manager prior to being transmitted to HUD.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii (14.228)

Award Years: July 1, 2008 to June 30, 2016; July 1, 2009 to June 30, 2017; July 1, 2010 to June 30, 2018; July 1, 2011 to June 30, 2019; July 1, 2012 to June 30, 2020; July 1, 2013 to June 30, 2021; July 1, 2014 to June 30, 2022; and July 1, 2015 to September 1, 2022, effective beginning August 27, 2011

Award Numbers: B-08-DC-34-0001; B-09-DC-34-0001; B-10-DC-34-0001; B-11-DC-34-0001; B-12-DC-34-0001; B-13-DC-34-0001; B-14-DC-34-0001; B-15-DC-34-0001; and B-12-DT-34-0001

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Community Affairs

Federal Agency: U.S. Department of Housing and Urban Development

Finding: 2016-016 Subrecipient Monitoring

Finding Type: Noncompliance, Significant Deficiency

Prior Year Finding: No

Criteria

Compliance

A pass-through entity (PTE) must:

- *Identify the Award and Applicable Requirements* – Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR section 200.331(a)(3)).

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Community Affairs (the Department) administers the Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii (CDBG) program for the State of New Jersey (the State). The Department enters into contracts with various subrecipients in order to administer CDBG in the State.

During our testwork over CDBG, we selected a sample of eight subrecipient contracts and noted the following:

- For two subrecipient contracts selected for testwork, the Department did not communicate the federal award identification number (FAIN), federal award date, the total amount of the federal award, name of federal

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

awarding agency, pass-through entity, and contact information. Total amount expended during State fiscal year 2016 for these two subrecipients was \$740,251.

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure communication to subrecipients of all the required elements at the time of the award.

Cause

The Department does not have policies and procedures in place to communicate the required information to subrecipients in accordance with the applicable requirements under 2 CFR section 200.331.

Effect

Subrecipients may not receive the required communication of Federal award information necessary to complete their required reporting under 2 CFR section 200.502.

Recommendation

We recommend the Department implement policies and procedures to communicate the all the necessary Federal award information to all subrecipients at the time of the award.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted. In September 2015, DCA implemented a system for communicating all applicable information set forth at 2 C.F.R. 200.331(a)(1) to its subrecipients. Specifically, all of the required informational elements were included in the subrecipient contract generated through the Department's computerized grant management system, SAGE. The required information is now presented on a "Data Sheet," which is found on page three of the subrecipients' grant agreement. Moreover, SAGE provides access to the grant agreement, in addition to any and all amendments, in an asynchronous, online environment thereby allowing subrecipients uninterrupted and continuous access to the applicable information.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Low-Income Home Energy Assistance (93.568)

Award Years: October 1, 2010 to September 30, 2012 (2011 Grant); October 1, 2011 to September 30, 2013 (2012 Grant); October 1, 2012 to September 30, 2014 (2013 Grant); October 1, 2013 to September 30, 2015 (2014 Grant); October 1, 2014 to September 30, 2016 (2015 Grant); and October 1, 2015 to September 30, 2017 (2016 Grant)

Award Numbers: G-1101NJLIEA (2011 GRANT); G-1201NJLIEA (2012 GRANT); G-1301NJLIEA (2013 GRANT); G-1402NJLIE4 (2014 GRANT); G-1502NJLIHE4 (2015 GRANT); and G-1602NJLIE4 (2016 GRANT)

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Community Affairs

Federal Agency: U.S. Department of Health and Human Services

Finding: 2016-017 Subrecipient Monitoring

Finding Type: Noncompliance, Significant Deficiency

Prior Year Finding: No

Criteria

Compliance

A pass-through entity (PTE) must:

- *Identify the Award and Applicable Requirements* – Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR section 200.331(a)(3)).

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Community Affairs (the Department) is the primary administrator of the Low-Income Home Energy Assistance program (LIHEAP) for the State of New Jersey (the State). The Department enters into contracts with various subrecipients in order to administer LIHEAP in the State.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

During our testwork over LIHEAP, we selected a sample of twenty-five subrecipient contracts and noted the following:

- For five subrecipient contracts selected for testwork, the Department did not communicate the federal award date, the federal award identification number (FAIN), the total amount of the federal award, name of federal awarding agency, pass-through entity, and contact information. Total amount expended to the five subrecipients was \$1,899,189.

The Department’s policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure communication to subrecipients of all the required elements at the time of the award.

Cause

The Department does not have policies and procedures in place to communicate the required information to subrecipients in accordance with the applicable requirements under 2 CFR section 200.331.

Effect

Subrecipients may not receive the required communication of Federal award information necessary to complete their required reporting under 2 CFR section 200.502.

Recommendation

We recommend the Department implement policies and procedures to communicate the all the necessary Federal award information to all subrecipients at the time of the award.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted. In September 2015, DCA implemented a system for communicating all applicable information set forth at 2 C.F.R. 200.331(a)(1) to its subrecipients. Specifically, all of the required informational elements were included in the subrecipient contract generated through the Department’s computerized grant management system, SAGE. The required information is now presented on a “Data Sheet,” which is found on page three of the subrecipients’ grant agreement. Moreover, SAGE provides access to the grant agreement, in addition to any and all amendments, in an asynchronous, online environment thereby allowing subrecipients uninterrupted and continuous access to the applicable information.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Special Education Cluster (IDEA) (84.027, 84.173)

Improving Teacher Quality State Grants (84.367)

Title I Grants to Local Education Agencies (84.010)

Award Years: July 1, 2013 to September 30, 2015; July 1, 2014 to September 30, 2016; and July 1, 2015 to September 30, 2017

Award Numbers: H173A130114; H027A130152; H173A14114; H027A14100; H173A150114; H027A150100; S367A130029; S367A130029-13A; S367A140029; S367A140029-14A; S367A150029; S367A150029-15A; S367A150029-15B; S010A120030; S010A120030-12A; S010A130030; S010A130030-13A; S010A140030; S010A140030-14A; S010A140030-14B; S010A150030; S010A150030-15A; and S010A150030-15B

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Education

Federal Agency: U.S. Department of Education

Finding: 2016-018 Subrecipient Monitoring

Finding Type: Noncompliance, Significant Deficiency

Prior Year Finding: No

Criteria

Compliance

A pass-through entity (PTE) must:

- *Identify the Award and Applicable Requirements* – Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR section 200.331(a)(3)).
- *Evaluate Risk* – Evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.331(b)). This evaluation of risk may include consideration of such factors as the following:
 1. The subrecipient’s prior experience with the same or similar subawards;
 2. The results of previous audits including whether or not the subrecipient receives single audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;
 3. Whether the subrecipient has new personnel or new or substantially changed systems; and

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

4. The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).
- *Monitor* – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.331(d) through (f)). In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:
1. Reviewing financial and programmatic (performance and special reports) required by the PTE.
 2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
 3. Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.

According to 2 CFR Section 200.331(a)(1)(xi) all pass-through entities must identify the dollar amount made available under each Federal award and the CFDA number at the time of disbursement.

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Education (the Department) administers the Improving Teacher Quality (Title II Part A), Title I Part A and Special Education (IDEA-B, IDEA-Preschool) grants for the State of New Jersey (the State). The Department enters into contracts with various Local Education Agencies (LEAs or subrecipients) in order to administer the funds locally throughout the State. The Department is responsible for monitoring the Subrecipients and for communicating the required Federal award information at the time of the awarding of the subrecipient’s contract and at each disbursement.

During our testwork over all major programs, we noted that the Department did not appropriately evaluate each subrecipient’s risk of noncompliance for purpose of determining the appropriate subrecipient monitoring related to the subaward.

During our testwork over the Improving Teacher Quality State Grants, the following items were noted:

- For all forty subrecipients selected for testwork, the Department did not communicate the CFDA name and number at the time of disbursement to the respective subrecipient. The Department also did not communicate the subrecipient DUNS number at the time of the federal award. Total amount expended for the forty subrecipients during State fiscal year 2016 was \$25,220,803

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

During our testwork over the Special Education Cluster, the following items were noted:

- For all twenty five subrecipients selected for testwork, the Department did not communicate the CFDA name and number at the time of disbursement to the respective subrecipient. The Department also did not communicate the subrecipient DUNS number at the time of the federal award. Total amount expended for the twenty five subrecipients during State fiscal year 2016 was \$87,062,095

During our testwork over the Title I Grants to Local Education Agencies the following items were noted:

- For all twenty five subrecipients selected for testwork, the Department did not communicate the CFDA name and number at the time of disbursement to the respective subrecipient. The Department also did not communicate the subrecipient DUNS number at the time of the federal award. Total amount expended for the twenty five subrecipients during State fiscal year 2016 was \$130,204,664

The Department’s policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure communication to subrecipients of all the required elements at the time of the award and of each disbursement.

Cause

The Department does not have policies and procedures in place to evaluate each subrecipient’s risk of noncompliance and communicate the required information to subrecipients in accordance with the applicable requirements under 2 CFR section 200.331.

Effect

Subrecipients may not receive the required communication of Federal award information necessary to complete their required reporting under 2 CFR section 200.502.

Recommendation

We recommend the Department implement policies and procedures to evaluate each subrecipient’s risk of noncompliance and communicate the CFDA name and number at the time of disbursement to the respective subrecipient. The Department should also communicate the DUNS number to all subrecipients at the time of the federal award.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted. The Department of Education (DOE) currently performs a risk assessment to determine which grantees should be monitored and has a “Special Conditions” page in all discretionary grant applications to indicate any special conditions that would be placed upon a grantee based upon the risk analysis. Going forward the “Special

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Conditions” page will also be added to entitlement grants beginning with the Fiscal Year 2018 entitlement grant applications. This page will include any special requirements based upon the risk analysis performed.

The reimbursement requests in the Electronic Web-Enabled Grant System (EWEG) currently display the name of the grant and the indirect cost rate. Going forward the following corrective actions will be implemented:

- The DUNS number will be added to all Fiscal Year 2018 entitlement applications as of July 1, 2017.
- The CFDA number will be added to all reimbursement requests as of July 1, 2017.
- The CFDA number will be added to all disbursements as of May 1, 2017.

In addition, OMB has modified its online VPI system to include data fields for CFDA name and number. Enrollment in VPI is available to any vendor or subrecipient doing business with the State and provides users with the ability to obtain detailed payment information for all disbursements processed through the NJCFS. https://www20.state.nj.us/TYM_VPI/home.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Special Education Cluster (IDEA) (84.027, 84.173)

Award Years: July 1, 2013 to September 30, 2015; July 1, 2014 to September 30, 2016; and July 1, 2015 to September 30, 2017

Award Numbers: H173A130114, H027A130152, H173A14114, H027A14100, H173A150114, H027A150100

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Education

Federal Agency: U.S. Department of Education

Finding: 2016-019 Suspension and Debarment

Finding Type: Noncompliance, Significant Deficiency

Prior Year Finding: No

Criteria

Compliance

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 2 CFR section 180.220 of the governmentwide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The State of New Jersey, Department of Education (the Department) administers the Special Education (IDEA-B, IDEA-Preschool) grants for the State of New Jersey (the State). The Department enters into contracts with various Local Education Agencies (LEAs or subrecipients) in order to administer the funds locally throughout the State. The Department is responsible for ensuring that the subrecipients are not suspended or debarred at the time the covered transaction is entered into.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

The Department uses the Electronic Web Based Grant System (EWEG) during the application process. Prior to submitting an application, subrecipients must certify that they are not suspended or debarred. Once this certification is complete the subrecipient is able to submit an application. EWEG will not allow a subrecipient to submit an application without the certification.

For all twenty-five subrecipients selected for testwork, while the Department obtained a certification from each subrecipient during the online application process, they did not obtain a similar certification at the time the subaward (covered transaction) was entered into. Total amount expended for the twenty five subrecipients during State fiscal year was \$84,537,930.

Through subsequent review of the subrecipients' status on the EPLS it was determined that none of the twenty-five subrecipients were suspended or debarred at the time the covered transactions were entered into.

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure subrecipients were not suspended or debarred at the time the covered transaction was entered into.

Cause

The Department did not obtain a similar suspension and debarment certification from their subrecipients at the time the covered transaction was entered into from when it was originally obtained during the application process.

Effect

The Department may grant awards to subrecipients that subsequently were suspended or debarred from the initial application process to the time the covered transaction was entered into.

Recommendation

We recommend the Department implement policies and procedures to obtain similar suspension and debarment certifications by subrecipients included in the application process at the time the covered transaction is entered into.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted. The Suspension and Debarment assurance is contained in the general assurances in the Central Contact Link in EWEG. The applicant must complete the information in the Central Contacts Link and agree to the assurances before a "Create application" button appears in the EWEG system for the applicant to create an entitlement grant application. DOE believed that this fulfilled the requirement concerning Suspension and Debarment. All discretionary grant applications currently contain the Suspension and Debarment assurance and the Suspension and Debarment assurance has also been added to all entitlement grant applications beginning with the Fiscal Year 2017 grant cycle.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Public Health Emergency Preparedness (93.069)

Award Year: July 1, 2014 to June 30, 2015

Award Number: 5U90TP00536-03

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Health

Federal Agency: U.S. Department of Health and Human Services

Finding: 2016-020 Allowable Costs/Cost Principles

Finding Type: Noncompliance, Significant Deficiency

Prior Year Finding: No

Criteria

Compliance

In accordance with OMB Circular A-87, Attachment A, paragraph C.1, to be allowable under Federal awards, costs must meet be adequately documented (2 CFR part 225).

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Health (DOH) is responsible for the administration of the Public Health Emergency Preparedness (PHEP) program for the State of New Jersey (the State). For one vendor payment voucher selected for testwork, the Department did not properly review the payment voucher and overpaid a vendor invoice. Total funds disbursed to the vendor were \$1,449 while the invoiced amount was \$1,148. This resulted in an overpayment to the vendor and unallowable costs charged to the grant totaling \$301.

The Departments' policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure all payment vouchers are properly reviewed to ensure payments to vendors were only for the invoiced amounts to avoid overpayments.

Cause

Management's review of the payment voucher prior to approval did not detect the overpayment.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Effect

The amount paid to the vendor using federal funds was not supported by the respective invoice, resulting in unallowable expenditures charged to the program.

Recommendation

We recommend that the Department strengthen its policies and procedures to ensure that all payment vouchers are properly reviewed and payments to vendors are only for the amounts invoiced.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

\$301, representing the overpayment to the vendor sampled, related to award number 5U90TP00536-03.

View of Responsible Official

Accepted. The Department of Health (DOH) has instituted tighter fiscal controls within accounts payable. The DOH Accounting and Procurement section has recently hired a supervisor of accounts payable and the Public Health Environmental Laboratory recently hired personnel to backfill vacant positions. The DOH Accounting and Procurement section has also established a new expenditure review process, whereby all disbursements are reviewed for propriety and the proper invoiced amount. The new supervisor will ensure compliance with the new procedure and report to the accounting manager.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

National Bioterrorism Hospital Preparedness Program (93.889)

Public Health Emergency Preparedness (93.069)

HIV Formula Grants (93.917)

Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program (93.505)

Special Supplemental Nutrition Program for Women, Infants, and Children (10.557)

Award Years: July 1, 2014 to June 30, 2015; July 1, 2015 to June 30, 2016; September 1, 2013 to September 30, 2015; March 31, 2013 to September 30, 2015; August 1, 2014 to September 30, 2016; March 1, 2015 to September 30, 2017; March 1, 2015 to September 30, 2017; April 1, 2015 to March 31, 2016; October 1, 2014 to September 30, 2015; and October 1, 2015 to September 30, 2016

Award Numbers: 5U90TP00536-03; 5U90TP00536-04; X02MC26333; D89MC23540; X02MC27410; D89MC28268; X02MC2823; X07HA00017-25; 15151NJ704W1003; and 16161NJ704W1003

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agencies: Department of Health
Department of Children and Families

Federal Agencies: U.S. Department of Health and Human Services
U.S. Department of Agriculture

Finding: 2016-021 Subrecipient Monitoring

Finding Type: Noncompliance, Significant Deficiency

Prior Year Finding: Yes, a similar finding was included in the 2015 prior year single audit report as item 2015-006 for CFDA Nos. 93.069, 93.917, 93.505, and 10.557. There was no prior year finding for CFDA No. 93.889

Criteria

Compliance

A pass-through entity (PTE) must:

- Identify the Award and Applicable Requirements – Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR section 200.331(a)(3)).

According to 2 CFR Section 200.331(a)(1)(xi) all pass-through entities must identify the dollar amount made available under each Federal award and the CFDA number at the time of disbursement.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Health (DOH) is responsible for the administration of the National Bioterrorism Hospital Preparedness Program (HPP), Public Health Emergency Preparedness (PHEP) program, HIV Formula Grants (HIV) program, Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program for the State of New Jersey (the State). We selected a total sample of forty-six DOH subrecipient awards, of which thirty-eight were awarded under the provisions of the Uniform Guidance. For all thirty-eight DOH subrecipient awards selected for testwork subject to Uniform Guidance, the Department did not include the Federal Award Identification, Federal Award Identification Number (FAIN), Federal Award Date, name of the federal awarding agency, identification of whether the award is research and development, and offering of the indirect cost rate for the federal award. The number of contracts selected for testwork for each major program is as follows:

- National Bioterrorism Hospital Preparedness Program – six contracts
- Public Health Emergency Preparedness – five contracts
- HIV Formula Grants – seventeen contracts
- Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program – two contracts
- Special Supplemental Nutrition Program for Women, Infants, and Children – eight contracts

Total funds passed through to these 38 subrecipients during State fiscal year 2016 were \$13,773,738.

The Department of Children and Families (DCF) is responsible for certain aspects of the administration of the Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program along with DOH. For all seven DCF contracts selected for testwork subject to Uniform Guidance, the Department did not include the Federal Award Identification, subrecipient name, subrecipient DUNS number, Federal Award Identification Number (FAIN), federal award project description as required by Federal Funding Accountability and Transparency Act (FFATA), name of the federal awarding agency, identification of whether the award is research and development, and offering of the indirect cost rate for the federal award. The number of contracts selected for testwork for each major program is as follows:

- Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program – seven contracts

Total funds passed through to these seven subrecipients during State fiscal year 2016 were \$512,006.

The Departments' policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure communication to subrecipients of all the required elements at the time of the award and of each disbursement

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Cause

The Departments do not have policies and procedures in place to communicate the required information to subrecipients in accordance with the applicable requirements under 2 CFR section 200.331.

Effect

Subrecipients may not receive the required communication of Federal award information necessary to complete their required reporting under 2 CFR section 200.502.

Recommendation

We recommend the Departments implement policies and procedures to communicate the required information under 2 CFR section 200.331 at the time of award and/or at the time of disbursement as applicable.

Related Noncompliance

Based on the above, the Departments were not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted.

DOH Response: DOH has implemented process enhancements to communicate the required information under 2 CFR section 200.331 at the time of the award and at the time of each disbursement. A new DOH policy titled *Identification of Federal Awards to Grantees* was distributed on March 11, 2016 by the Department's Grant Approval Officer. Effective for grant periods beginning July 1, 2016, any division making a federal subaward was required to include specific language identifying the federal award in Box 14 of the Department's Notice of Grant Award. For Fiscal Year 2018, new fields have been added to the Department's standard grant agreement form to accommodate this additional information.

DCF Response: As it relates to ACA, DCF has already implemented significant process enhancements in these areas. During the scope of this audit, DCF provided award letters/documents to the subrecipient containing most if not all the required information. During the Fall of 2016, DCF began to provide the subrecipient with a higher level of detail regarding the award granted. DCF sent letters to each provider that had federal funding in any of its contract components in calendar year 2016 and Fiscal Year 2017 contracts, based on information available to the Department as of the end of August 2016. DCF did not personalize the cover letter (CFDA Letter to Providers 101416) but did attach an Excel page listing the providers' contract(s) with the type of funding, federal Fiscal Year and CFDA number. The cover letter explains how the provider can use the information on the Excel page to get the additional details as required by the Uniform Guidance on DCF's public website.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program (93.505)

Award Years: September 1, 2013 to September 30, 2015; March 31, 2013 to September 30, 2015; August 1, 2014 to September 30, 2016; and March 1, 2015 to September 30, 2017

Award Numbers: X02MC26333; D89MC23540; X02MC27410; D89MC28268; and X02MC28235

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agencies: Department of Health
Department of Children and Families

Federal Agency: U.S. Department of Health and Human Services

Finding: 2016-022 Level of Effort – Supplement Not Supplant

Finding Type: Noncompliance, Significant Deficiency

Prior Year Finding: No

Criteria

Compliance

Funds provided to an eligible entity receiving a grant shall supplement, and not supplant, funds from other sources for early childhood home visitation programs or initiatives. The grantee must agree to maintain non-Federal funding (State General Funds) for grant activities at a level which is not less than expenditures for such activities as of the entity's most recently completed fiscal year (home visiting is defined as an evidence-based program, implemented in response to findings from a needs assessment, that includes home visiting as a primary service delivery strategy, excluding programs with infrequent or supplemental home visiting), and is offered on a voluntary basis to pregnant women or children birth to age 5 targeting the participant outcomes in the legislation which include improved maternal and child health, prevention of child injuries, child abuse, or maltreatment, and reduction of emergency department visits, improvement in school readiness and achievement, reduction in crime or domestic violence, improvements in family economic self-sufficiency, and improvements in the coordination and referrals for other community resources and supports) (Section 511(f) of the Social Security Act, as added by Section 2951 of Pub. L. No. 111-148; FOAs Section III.3).

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Health (DOH) and the Department of Children and Families (DCF) are the primary agencies responsible for the administration of the Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program for the State of New Jersey (the State). The State has an obligation under the programs level of effort – supplement not supplant requirements (LOE-SNS) to supplement the Federal funds with funds from other sources (State General Funds or in-kind support) for grant activities at a level which is not less than expenditures

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

for such activities as of the entity’s most recently completed fiscal year (measured and reported on a Federal fiscal year basis). During the application process, the Departments certify LOE-SNS requirement on an annual basis.

As part of our testing over the LOE-SNS requirements for the ACA program, we noted that the Departments did not meet the requirement to ensure that ACA program activities for the current Federal fiscal year (FFY) are maintained at a level which is not less than expenditures for such activities as of the Departments’ most recently completed FFY. Since this requirement is based upon a FFY basis, we examined such expenditures for ACA program activities for the FFY ended September 30, 2015, as this was the FFY that concluded during the State fiscal year 2016. We compared FFY 2015 expenditures to those reported for FFY 2014 and noted that in FFY15, the Departments reported \$4,040,639 of non-federal expenditures which is less than the \$4,041,348 of non-federal expenditures reported for FFY14.

The Departments’ policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure the Departments meet the level of effort requirement.

Cause

The Departments do not have policies and procedures in place to appropriately monitor expenditures used to meet the LOE-SNS requirements for the program.

Effect

Failing to monitor expenditures used to meet level of effort requirements may cause the Departments to not use federal dollars to meet certain programmatic milestones or provide assistance to a certain group of beneficiaries.

Recommendation

We recommend that the Departments implement policies and procedures to properly monitor and ensure that program expenditures to meet LOE-SNS and earmarking requirements are tracked and/or adjusted to meet such requirements.

Related Noncompliance

Based on the above, the Departments were not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted.

DOH Response: The DOH Project Director for the New Jersey Maternal, Infant, and Early Childhood Home Visiting Program (MIECHV) will work with staff from the DCF Fiscal and Management Operations, Budget Office to implement policies and procedures to properly monitor and ensure that program expenditures meet the level of effort and earmarking requirements. This collaboration will also work together to ensure that program expenditures are tracked and/or adjusted to meet such requirements.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

DCF Response: As stated above, staff from the DCF Fiscal and Management Operations, Budget Office will meet and work with DCF and DOH staff from the MIECHV to implement policies and procedures to properly monitor program expenditures and to ensure that the level of effort and earmarking requirements are tracked and/or adjusted to meet such requirements.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

TANF Cluster (93.558)

Award Years: October 1, 2010 to September 30, 2011; October 1, 2011 to September 30, 2012; October 1, 2012 to September 30, 2013; October 1, 2013 to September 30, 2014; October 1, 2014 to September 30, 2015; and October 1, 2015 to September 30, 2016

Award Numbers: 1102NJTANF; 1202NJTANF; 1302NJTANF; 1402NJTANF; 1502NJTANF; and 1601NJTANF

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 2016-023 Eligibility

Finding Type: Significant Deficiency

Prior Year Finding: No

Criteria

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Eligibility

Split Eligibility Determination Functions - Some non-Federal entities pay the Federal benefits to the eligible participants but arrange with another entity to perform part or all of the eligibility determination. For example, a State arranges with local government social services agencies to perform the “intake function” (e.g., the meeting with the social services client to determine income and categorical eligibility) while the State maintains the computer systems supporting the eligibility determination process and actually pays the benefits to the participants. In such cases, the State is fully responsible for Federal compliance for the eligibility determination, as the benefits are paid by the State. Moreover, the State shows the benefits paid as Federal awards expended on the State’s Schedule of Expenditures of Federal Awards. Therefore, the auditor of the State is responsible for meeting the internal control and compliance audit objectives for eligibility. This may require the auditor of the State to perform, coordinate, or arrange for additional procedures to ensure compliant eligibility determinations when another entity performs part of the eligibility determination functions. The responsibility of the auditor of the State for auditing eligibility does not relieve the auditor of the other entity (e.g., local government) from responsibility for meeting those internal control and compliance audit objectives for eligibility that apply to the other entity’s responsibilities. An exception occurs when the auditor of the other entity confirms with the auditor of the State that certain procedures are not necessary.

The State of New Jersey has submitted the State plan to the Secretary outlining how the state intends to conduct the Temporary Assistance for Needy Families program. In accordance with 42 USC 602 (a)(1)(B)(iii), “The document shall set forth objective criteria for the delivery of benefits and the determination of eligibility and for

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

fair and equitable treatment, including an explanation of how the State will provide opportunities for recipients who have been adversely affected to be heard in a State administrative or appeal process.”

Excerpt from New Jersey State Plan for Temporary Assistance for Needy Families:

New Jersey maintains a quality control/assurance function under WFNJ/TANF, which preserves some features of the pre-block grant quality control system, including reviews of individual case records to determine payment accuracy rates, as well as other statistical measures of policy implementation and application.

Program Evaluation reviews are also performed by State personnel within individual counties. These Program Evaluation reviews focus on specific aspects of the WFNJ program, such as program access, policy dissemination and implementation, reporting, training provisions, and fraud prevention and investigation. The Program Evaluation review process ensures the accountability of the program.

Condition

The Department of Human Services, Division of Family Development (the Department or DFD) is the agency responsible for administration of the TANF Cluster (TANF) in the State of New Jersey (the State). The Department has a quality control system in place to ensure that the County Welfare Agencies (CWAs) properly determine the eligibility of the beneficiaries. The Department will receive the beneficiary’s case file and supporting documentation from the CWA to conduct these reviews. If discrepancies are noted then the Department and the CWA will take corrective action to ensure the accuracy of the case file.

For a sample of forty TANF quality control cases selected for testwork at the Department, the following were noted:

- For four quality control cases, there was no evidence that the case was reviewed by a supervisor. However, based on our review of the supporting documentation provided, the correct determination was made by the original reviewer for each of these cases.

The Department’s policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure the quality control case reviews were being properly reviewed by a supervisor.

Cause

Evidence supporting the review of the case files for quality control purposes was not properly documented.

Effect

Improper conclusions may be reached on quality control cases if supervisory review is not performed.

Recommendation

We recommend that the Department strengthen its internal control procedures to ensure that all quality control cases reviewed are properly signed off on by a supervisor.

Related Noncompliance

Not applicable as this is an internal control finding.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Questioned Costs

None

View of Responsible Official

Accepted. Although the four quality control cases identified were not signed and dated by a supervisor, DFD confirmed the cases in question were reviewed multiple times and were correct for the month reviewed. DFD has revised its standard operating procedures to ensure all cases are reviewed and properly signed-off by the appropriate quality control supervisor.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

TANF Cluster (93.558)

Award Years: October 1, 2010 to September 30, 2011; October 1, 2011 to September 30, 2012; October 1, 2012 to September 30, 2013; October 1, 2013 to September 30, 2014; October 1, 2014 to September 30, 2015; and October 1, 2015 to September 30, 2016

Award Numbers: 1102NJTANF; 1202NJTANF; 1302NJTANF; 1402NJTANF; 1502NJTANF; and 1601NJTANF

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 2016-024 Reporting

Finding Type: Noncompliance, Significant Deficiency

Prior Year Finding: No

Criteria

Compliance

ACF-199, TANF Data Report (OMB No. 0970-0338) and ACF-343, Tribal TANF Data Report (OMB No. 0970-0215) (65 FR 8545, Appendix A, February 18, 2000)

One of the critical areas of this reporting is the work participation data, which serve as the basis for ACF to determine whether States and tribes have met the required work participation rates. A penalty may apply for failure to meet the required rates.

States Work Participation Rates

State agencies must meet or exceed their minimum annual work participation rates. The minimum work participation rates are 50 percent for the overall rate and 90 percent for the two-parent rate. A State's minimum work participation rate may be reduced by its caseload reduction credit. HHS may penalize the State by an amount of up to 21 percent of the SFAG for violation of this provision (42 USC 609(a)(4); 45 CFR section 262.1(a)(4)).

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Human Services, Division of Family Development (the Department) is the agency responsible for administration of the TANF Cluster (TANF) in the State of New Jersey (the State). The Department is responsible for the compilation and reporting of the ACF-199 report to the Federal government. The Department is to ensure that all records within the FAMIS system are properly reflected on the ACF-199 report.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

For a sample of forty TANF cases selected for ACF-199 testwork at the Department, the following was noted:

- For one case, the “Number of Months Countable toward the Federal Time Limit” in FAMIS was inconsistent with the number of months reported on the ACF-199 report.

The Department’s policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure that complete and accurate information was being reported in the ACF-199 report.

Cause

The data reported in the ACF-199 report was not adequately checked for consistency with FAMIS.

Effect

Payments under the TANF program may be processed to individuals who are outside of the “Countable Months” limit due to inaccuracies on the ACF-199 reporting.

Recommendation

We recommend that the Department strengthen its internal control procedures to ensure that all ACF-199 inputs are accurate and consistent with the data in FAMIS.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirements.

Questioned Costs

None. The family did not exceed the 60 month limit.

View of Responsible Official

Accepted. DFD has not had an issue with the “Number of Months Countable toward the Federal Time Limit” in the past and is currently investigating the cause of this abnormality identified within the TANF Data Report (TDR) process, which is used to build the ACF-199 report in the data warehouse. The majority of cases in the report are not affected and DFD will remediate this issue once the cause has been identified.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

TANF Cluster (93.558)

Award Years: October 1, 2010 to September 30, 2011; October 1, 2011 to September 30, 2012; October 1, 2012 to September 30, 2013; October 1, 2013 to September 30, 2014; October 1, 2014 to September 30, 2015; and October 1, 2015 to September 30, 2016

Award Numbers: 1102NJTANF; 1202NJTANF; 1302NJTANF; 1402NJTANF; 1502NJTANF; and 1601NJTANF

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agencies: Department of Human Services
Department of Labor and Workforce Development
Department of Children and Families

Federal Agency: U.S. Department of Health and Human Services

Finding: 2016-025 Subrecipient Monitoring

Finding Type: Noncompliance, Significant Deficiency

Prior Year Finding: Yes, a similar finding was included in the 2015 prior year single audit report as item 2015-032

Criteria

Compliance

A pass-through entity (PTE) must:

- *Identify the Award and Applicable Requirements* – Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR section 200.331(a)(3)).
- *Evaluate Risk* – Evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.331(b)). This evaluation of risk may include consideration of such factors as the following:
 1. The subrecipient’s prior experience with the same or similar subawards;
 2. The results of previous audits including whether or not the subrecipient receives single audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;
 3. Whether the subrecipient has new personnel or new or substantially changed systems; and
 4. The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- *Monitor* – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.331(d) through (f)). In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:
 1. Reviewing financial and programmatic (performance and special reports) required by the PTE.
 2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
 3. Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.

According to 2 CFR Section 200.331(a)(1)(xi) all pass-through entities must identify the dollar amount made available under each Federal award and the CFDA number at the time of disbursement.

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Human Services (DHS), Division of Family Development is the primary administrator of the TANF Cluster (TANF) for the State of New Jersey (the State). Through the State Appropriations Act, funding is budgeted to the Department of Labor and Workforce Development (DLWD) and the Department of Children and Families (DCF). DHS, DLWD, and DCF enter into contracts with various subrecipients in order to administer TANF in the State.

During our testwork over TANF, the following were noted:

- For four out of the twenty-five DHS subrecipient monitoring selections, the Department did not communicate the Federal Award Date, the Total Amount of Federal Funds Obligated to the Subrecipient, the Total Amount of the Federal Award, the Federal Award Project Description for FFATA purposes, and the Indirect Cost Rate for the Federal Award. Total payments to the four subrecipients were \$4,741,447.
- For all seven DLWD subrecipient monitoring selections, DLWD did not communicate the Federal Award Identification, the Federal Award Identification Number, and the CFDA Number and Name. Total payments to the seven subrecipients were \$4,511,083.
- For all twenty DLWD subrecipient payment selections, the Department did not communicate the CFDA name and number with each disbursement. Total of the twenty subrecipient payments was \$2,795,147.
- For all twenty DCF subrecipient payment selections, the Department did not communicate the CFDA name and number with each disbursement. Total of the twenty subrecipient payments was \$1,614,643.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Total funds passed through to subrecipients from the Department of Labor and Workforce Development during State fiscal year 2016 for the TANF Cluster were \$17,329,528. Total funds passed through to subrecipients from the Department of Children and Families during State fiscal year 2016 for the TANF Cluster were \$17,587,348. Total funds passed through to subrecipients from the Department of Human Services during State fiscal year 2016 for the TANF Cluster were \$77,728,208.

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure the proper award information was communicated to the subrecipient at the time of awarding or disbursement.

Cause

The Departments do not have policies and procedures in place to communicate the required information at the time of award or provide the CFDA number for each disbursement, as required by 2 CFR section 200.331.

Effect

Subrecipients may not receive the required communication of Federal award information necessary to complete their required reporting under 2 CFR section 200.502.

Recommendation

We recommend the Department implement policies and procedures to communicate the required information at the time of award and provide the CFDA number and amount with each disbursement.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted.

DHS Response: DFD will revise how it currently provides award notices to subrecipients to ensure that the new federal Uniform Guidance requirements are included. Once finalized, DFD will provide all subrecipients with an updated award notice for its Fiscal Year 2017 contract that includes the additional required information.

DLWD Response: DLWD is now using a funding sheet that provides the subrecipient with the required CFDA information and FAIN of the funding at the time of the award. DLWD will also include information on the funding sheet for the VPI system, which is detailed in the last paragraph below, to notify subrecipients as to where they can obtain the required CFDA information at the time of each disbursement.

DCF Response: A corrective action plan is already in place. DCF is in the process of implementing a revised Schedule of Estimated Claims which delineates the dollar amount made available under each federal award, the

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

CFDA number, and month in which payment will be made. For many contracts, this has already been implemented and DCF is presently working toward full compliance.

In addition, OMB has modified its online VPI system to include data fields for CFDA name and number. Enrollment in VPI is available to any vendor or subrecipient doing business with the State and provides users with the ability to obtain detailed payment information for all disbursements processed through the NJCFS. https://www20.state.nj.us/TYM_VPI/home.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Unemployment Insurance (17.225)

Award Years: October 1, 2013 to December 31, 2016; October 1, 2014 to December 31, 2017; and October 1, 2015 to December 31, 2018

Award Numbers: UI-25220-14-55-A-34; UI-26550-15-55-A-34; and UI-27992-16-55-A-34

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agencies: Office of Information Technology
Department of Labor and Workforce Development

Federal Agency: U.S. Department of Labor

Finding: 2016-026 Other Requirements – Information Technology General and Application Controls

Finding Type: Significant Deficiency

Prior Year Finding: Yes, a similar finding was included in the 2015, 2014, 2013, 2012, and 2011 prior year single audit reports as items 2015-029, 2014-019, 2013-018, 12-35, and 11-1, respectively

Criteria

Internal Control

2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart D, section 200.303 states that non-Federal entities receiving Federal awards (i.e., auditee management) must establish and maintain effective internal control over Federal awards that provides reasonable assurance that the non-Federal entity is managing Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal awards. These internal controls should be in compliance with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62)

Condition

The State of New Jersey (the State), Office of Information Technology (OIT) oversees the mainframes, servers, networks, and databases that make up the State’s technical infrastructure, which includes the New Jersey Local Office On-line Payment System (NJLOOPS) databases and IBM mainframes. As part of OIT’s oversight for NJLOOPS, OIT develops and maintains a general information technology (IT) control environment to ensure the overall effectiveness of the application controls directly associated with NJLOOPS.

The Department of Labor and Workforce Development (the Department) is responsible for the administration of the Unemployment Insurance program in the State. The State utilizes NJLOOPS to determine eligibility of unemployment claims filed throughout the State, calculate the monetary entitlement of claimants to ensure

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

consistency of payment amounts, automate the initial claims entry to track all claims by social security number, program code, and date of claim, track all determinations which affected any week of eligibility to ensure payments were made only when due, and track payments of unemployment insurance to eliminate duplicate payments.

We noted the following deficiencies in the design of IT general controls over NJLOOPS:

1. *Access to the Data Center at Systems and Communications (SAC) and OIT Availability Recovery Site (OARS)*
 - Data Center Access is not limited only to individuals that require access to the SAC and OARS server room. OIT shares the SAC data center where critical NJLOOPS systems are held with other State Agencies. During the course of our test work, there were 323 individuals that can access the SAC data center room where servers are housed. Additionally, during the course of our test work, it was noted that 291 individuals have access to the OARS recovery site data center. It was noted that access to the data center server room is not restricted to only those that have assigned responsibilities for which they require access to the data center.
2. *Appropriateness of Access*
 - Periodic review of end user accounts for appropriateness is not performed for Windows network. This review has not been performed in the past, therefore although controls related to granting and modifying access may be appropriate currently, there is a potential that some users of the system may continue to have access in the network that they no longer require.
 - Certain individuals that have access to the development environment also have access to make changes to the production environment in NJLOOPS. Therefore, there is no segregation of duties in this area. Though a review of changed objects is done at year end, a formal documented review of NJLOOPS Changes is not performed periodically.
 - Our review of users with administrative access on mainframe ACF2 (underlying Operating System for NJLOOPS) noted one user account belonging to OIT user with the ability to perform transactions within the NJLOOPS application.
 - Our review of terminated employees for DLWD noted two employees that were not disabled from NJLOOPS in a timely manner (2 business days).
3. *Disaster Recovery*
 - A Disaster Recovery plan over NJLOOPS is not in place and has not been tested during State fiscal year 2016.
4. *Social Security Number (SSN) verification*
 - Our review of SSN verification through the Veris program noted that certain SSN formats were not properly validated for selected applicants based upon their date of birth. It was noted that Veris continued to validate the SSN format as appropriate even while showing that the date of birth was not a logical match for the number and further did not flag the case to prevent issuance of benefits. We noted, however, that all beneficiaries selected for detail testing had a valid SSN, and was therefore eligible to receive benefits.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Cause

1. *Access at the Data Center at SAC and OARS*

- Formalized procedures for the review of individuals that have access to the Data Center to validate that they require access to the Server Room are not developed and a review is not conducted.

2. *Appropriateness of Access*

- A user account review was not performed to validate appropriateness of access for end users.
- The system does not enforce segregation of duties, where individuals can only be given access to the development environment or the production environment in NJLOOPS. Individuals can get access at both levels that would enable them to modify and develop code in the development environment and then move that code to production without management review.
- The ACF2 system was not properly configured to enforce Segregation of Duties (SOD) for the administrative user account noted, where this individual from OIT department could perform administrative tasks on mainframe and also had the ability to perform transactions within NJLOOPS.
- The terminated users' accounts were not disabled/deleted from the network in a timely manner.

3. *Disaster Recovery*

- Formalized Disaster Recovery procedures are not in place and testing is not performed.

4. *SSN Verification*

- Veris does not perform thorough checks to verify whether a specific SSN format is valid for a claimant. Veris logically analyzes the format of the SSN and determines the possible range of years that it could have been issued based on the format of the number. It is then intended to compare the date of birth of the applicant with the issuance year range to determine whether the SSN format is valid. Further, we noted that due to the IRS randomization project in 2011, post-2011 SSNs formats cannot be validated by Veris, as their format does not logically map to any specific date.

Effect

1. *Access at the Data Center at SAC*

- There is a risk of inappropriate access to the servers that house critical data for the State to administer its Federal programs.

2. *Appropriateness of Access*

- A lack of system controls and configuration, as well as inappropriate monitoring of access to data and delay in removal of access for terminated individuals, could result in not having accountability, inaccurate data being stored and inappropriate use of information. Individuals that should not have access to the system may be able to access information that is not intended for them.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

3. *Disaster Recovery*

- The absence of periodic recovery tests may prevent recovery of the NJLOOPS application data in case of a disaster.

4. *SSN Verification*

- The absence of thorough SSN verification, including format based upon date of birth of a beneficiary, may result in issuance of benefits to inappropriate claimants.

Recommendation

1. *Access at the Data Center at SAC*

- We recommend that OIT perform the following with regard to access to the Data Center:
 - Provide access to only those individuals that are required and approved to enter the Data Center.
 - Perform reviews of users that can access the Data Center and Server Room on a periodic basis to determine that only appropriate individuals were allowed access to the Data Center and Server Room.

2. *Appropriateness of Access*

- We recommend that access reviews be performed periodically to validate that the individuals that maintain access to the system are appropriately maintained based on their current role within the Department/State. In addition, user accounts should be timely disabled or deleted on termination or transfer out of the Department/State.
- We recommend that there be segregation of duties in accounts where the same individuals do not have access to make changes both in the development environment and the production environment.
- We recommend that there be segregation of duties in accounts whereby system administrators do not have the ability to perform transactions within NJLOOPS application.
- We recommend that access for terminated users be disabled from network and relevant applications within one business day of termination.

3. *Disaster Recovery*

- We recommend that formalized Disaster Recovery procedures be defined, and testing be performed periodically to assess the process, tools, and people involved with this process.

4. *SSN Verification*

- We recommend that a formal downstream automated or manual control be implemented to perform a thorough check for validity of SSN before benefits are issued to the claimant. Alternatively, we recommend replacing the existing Veris program with an enhanced program that thoroughly checks for validity of SSNs.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Related Noncompliance

Not applicable as this is an internal control finding.

Questioned Cost

None

View of Responsible Official

Accepted.

Access at the Data Center at Systems and Communications (SAC) and OIT Availability and Recovery Site (OARS)

- *OIT Response:* A Fiscal Year 2016 physical access accounting of users having access to OIT Data Centers and Server Rooms was performed. This is an annual compensating control exercise to assess the propriety of physical access rights into OIT facilities. In Fiscal Year 2017, a material reduction of OIT personnel assigned to the HUB, OARS and SAC has occurred and their reassignments now have them stationed at OIT's River View Plaza headquarters.

Appropriateness of Access

- *DLWD Response:* DLWD on a semi-weekly basis runs a query and disables any account with 30 days of inactivity.
- *OIT Response:* Senior development personnel have access to production moves. When fully staffed, segregation of duties can be practiced to reduce a single person from performing both development and production moves. Despite this, a limited number of senior development personnel need to retain the ability to perform production moves during short-staffed periods and/or for emergency-related 24/7 system support. To compensate OIT's Internal Monitoring, Audit and Controls Unit will monitor and log system activity as to its propriety.
- *OIT Response:* A remedial action has been made whereby OIT's ACF2 administrators are no longer able to access the NJLOOPS application. A specific resource rule within ACF2 is now necessary to override a new bit field setting enabled on all ACF2 administrator IDs.
- *DLWD Response:* DLWD has instituted a new On Board-Off Board process through Human Resources, where based on this procedure terminated employees' access to all State systems will be removed in a more efficient manner. This procedure involves Human Resources issuing a work order on our Help Desk work order system that will notify the Data Security Unit to take immediate action in removing a terminated DLWD employee from the NJLOOPS system.

Disaster Recovery

- *DLWD Response:* The DLWD Division of Information Technology has developed a Disaster Recovery Plan for NJLOOPS that includes a scheduled Disaster Recovery exercise in June 2017. This plan will include a mock business day where claims will be taken, processed, and test payment(s) issued.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

SSN Verification

- DLWD Response: DLWD realizes that VERIS information, post-randomization, is not reliable. DLWD will investigate other methods to verify Social Security numbers (SSNs), whether that is with the federal Social Security Administration directly or another third party. Also, DLWD will be checking with other states as to what methods they use to verify SSNs.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

CCDF Cluster (93.575, 93.596)

Award Year: October 1, 2015 to September 30, 2016

Award Number: G1601NJCCDF

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 2016-027 Subrecipient Monitoring

Finding Type: Noncompliance, Significant Deficiency

Prior Year Finding: No

Criteria

Compliance

A pass-through entity (PTE) must:

- *Identify the Award and Applicable Requirements* – Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1);

(2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR section 200.331(a)(3)).
- *Evaluate Risk* – Evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.331(b)). This evaluation of risk may include consideration of such factors as the following:
 1. The subrecipient’s prior experience with the same or similar subawards;
 2. The results of previous audits including whether or not the subrecipient receives single audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;
 3. Whether the subrecipient has new personnel or new or substantially changed systems; and
 4. The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).
- *Monitor* – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.331(d) through (f)). In addition to procedures identified as necessary based

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:

1. Reviewing financial and programmatic (performance and special reports) required by the PTE.
2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
3. Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.

According to 2 CFR Section 200.331(a)(1)(xi) all pass-through entities must identify the dollar amount made available under each Federal award and the CFDA number at the time of disbursement.

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Human Services (the Department), Division of Family Development (DFD), administers the CCDF Cluster for the State of New Jersey (the State). The Department enters into contracts with various subrecipients in order to administer the CCDF cluster throughout the State. The Department's main subrecipients are the Child Care Resource and Referral Agencies (CCR&R) who determine the child's eligibility and monitor the child care facilities. The Department enters into annual subrecipient agreements with the CCR&R's and the Department monitors them continuously throughout the year. The Department is responsible for monitoring the subrecipients and for communicating the required Federal award information at the time of the awarding of the subrecipient's contract and at each disbursement.

During our testwork over the CCDF Cluster, the following items were noted:

- For eight subrecipient contracts selected for testwork, the Department did not communicate the federal award date, the amount of federal funds obligated to the subrecipient, the total amount of the federal award, and the federal award project description.
- For four subrecipient payments selected for testwork, the Department did not communicate the CFDA name and number with each disbursement to the subrecipient.

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure the proper information was communicated to the subrecipient at the time of awarding and disbursement.

Cause

The Department does not have policies and procedures in place to communicate the required information to subrecipients in accordance with the applicable requirements under 2 CFR section 200.331.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Effect

Subrecipients may not receive the required communication of Federal award information necessary to complete their required reporting under 2 CFR section 200.502.

Recommendation

We recommend the Department implement policies and procedures to communicate the federal award date, the amount of federal funds obligated to the subrecipient, the total amount of the federal award, federal award project description, and provide the CFDA name and number at the time of disbursement.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted. DFD will revise how it currently provides award notices to subrecipients to ensure that the new federal Uniform Guidance requirements are included. Once finalized, DFD will provide all subrecipients with an updated award notice for its Fiscal Year 2017 contract that includes the additional required information. DFD will also provide notices to subrecipients with each disbursement to ensure compliance with federal UG requirements.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

WIA/WIOA Cluster (17.258, 17.259, 17.278)

Award Years: July 1, 2013 to July 1, 2015; July 1, 2014 to July 1, 2016; and July 1, 2015 to July 1, 2017

Award Numbers: AA-24108-13-55-A-34; AA-25369-14-55-A-34; and AA-26795-15-55-A-34

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Labor and Workforce Development

Federal Agency: U.S. Department of Labor

Finding: 2016-028 Subrecipient Monitoring

Finding Type: Noncompliance, Significant Deficiency

Prior Year Finding: No

Criteria

Compliance

A pass-through entity (PTE) must:

- *Identify the Award and Applicable Requirements* – Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR section 200.331(a)(3)).
- *Evaluate Risk* – Evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.331(b)). This evaluation of risk may include consideration of such factors as the following:
 1. The subrecipient’s prior experience with the same or similar subawards;
 2. The results of previous audits including whether or not the subrecipient receives single audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;
 3. Whether the subrecipient has new personnel or new or substantially changed systems; and
 4. The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).
- *Monitor* – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.331(d) through (f)). In addition to procedures identified as necessary based

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:

1. Reviewing financial and programmatic (performance and special reports) required by the PTE.
2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
3. Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.

According to 2 CFR Section 200.331(a)(1)(xi) all pass-through entities must identify the dollar amount made available under each Federal award and the CFDA number at the time of disbursement.

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Labor and Workforce Development (the Department) administers the WIA/WIOA Cluster for the State of New Jersey (the State). The Department enters into contracts with various Workforce Investment Boards (WIBS or subrecipients) in order to administer the WIA/WIOA Cluster locally throughout the State. The Department is responsible for monitoring the WIBs and for communicating the required Federal award information at the time of the awarding of the subrecipient's contract and at each disbursement.

During our testwork over WIA/WIOA Cluster, the following items were noted:

- For all eight subrecipient contracts selected for testwork, the Department did not communicate the CFDA name and number in the subrecipient's contract or at the time of disbursement to the respective subrecipient. The Department also did not communicate the federal award identification number (FAIN). Total amount expended for the 8 subrecipients during State fiscal year 2016 was \$67,134,919.
- For one of the eight subrecipient contracts selected for testwork, the Department did not perform adequate follow up procedures on a corrective action noted in a prior year site visit for the subrecipient. The total amount expended for this one subrecipient during State fiscal year 2016 was \$5,942,340.

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure communication to subrecipients of all the required elements at the time of the award and of each disbursement as well as follow-up procedures on a corrective action noted from prior year site visits.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Cause

The Department does not have policies and procedures in place to communicate the required information to subrecipients in accordance with the applicable requirements under 2 CFR section 200.331. Also, the Department did not fully perform or adhere to its policies for follow-up on prior year corrective actions for its subrecipients in accordance with 2 CFR section 200.521.

Effect

Subrecipients may not receive the required communication of Federal award information necessary to complete their required reporting under 2 CFR section 200.502. Also, the State may not perform adequate or timely follow-up to ensure its risk assessment for subrecipients and resulting monitoring procedures are adequate.

Recommendation

We recommend the Department implement policies and procedures to communicate the CFDA name and number in the subrecipient's contract or at the time of disbursement to the respective subrecipient. The Department should also communicate the federal award identification number (FAIN) to all subrecipients. Furthermore, we recommend the Department ensure existing subrecipient monitoring procedures are followed to ensure proper follow up communication in regards to corrective action over all subrecipients.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted. DLWD is now using a funding sheet that provides the subrecipient with the required CFDA information and FAIN of the funding at the time of the award. DLWD will also include information on the funding sheet for the VPI system, which is detailed in the next paragraph, to notify subrecipients as to where they can obtain the required CFDA information at the time of each disbursement.

As referenced above, OMB has modified its online VPI system to include data fields for CFDA name and number. Enrollment in VPI is available to any vendor or subrecipient doing business with the State and provides users with the ability to obtain detailed payment information for all disbursements processed through the NJCFS. https://www20.state.nj.us/TYM_VPI/home.

DLWD is now up to date on the issuance of its site-visit monitoring reports and is following up timely on any findings and/or corrective actions noted. DLWD will continue to do so going forward as part of its normal policies and procedures.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Unemployment Insurance (17.225)

Award Years: October 1, 2013 to December 31, 2016; October 1, 2014 to December 31, 2017; and October 1, 2015 to December 31, 2018

Award Numbers: UI-25220-14-55-A-34; UI-26550-15-55-A-34; and UI-27992-16-55-A-34

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Labor and Workforce Development

Federal Agency: U.S. Department of Labor

Finding: 2016-029 Reporting

Finding Type: Noncompliance, Significant Deficiency

Prior Year Finding: No

Criteria

Compliance

Financial Reporting

ETA 2112, *UI Financial Transaction Summary (OMB No. 1205-0154)* – A monthly summary of transactions, which account for all funds received in, passed through, or paid out of the State unemployment fund (ET Handbook 401; 2 CFR Section 200.327).

Performance Reporting

Trade Act Participant Report (TAPR) (OMB No. 1205-0392) – SWAs are required to submit quarterly reports on participant characteristics, services and benefits received, and outcomes achieved on a rolling four quarter basis (TEGL No. 6-09; 2 CFR Section 200.328).

Key Line Items – The following line items contain critical information:

- (1) Section A.01: Identifying Data – Individual Identifier
- (2) Section D.01: Employment and Job Retention Information – Employed in first full quarter after exit.
- (3) Section D.01: Employment and Job Retention Information – Employed in second full quarter after exit.
- (4) Section D.01: Employment and Job Retention Information – Employed in third full quarter after exit.
- (5) Section D.01: Employment and Job Retention Information – Employed in forth full quarter after exit.

Total Earnings from Wage Records:

- (6) Section D. 02 Wage Record Data – Wages third quarter prior to participant quarter
- (7) Section D. 02 Wage Record Data – Wages second quarter prior to participant quarter
- (8) Section D. 02 Wage Record Data – Wages first quarter prior to participant quarter

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- (9) Section D. 02 Wage Record Data – Wages first quarter after exit quarter
- (10) Section D. 02 Wage Record Data – Wages second quarter after exit quarter
- (11) Section D. 02 Wage Record Data – Wages third quarter after exit quarter
- (12) Section D. 02 Wage Record Data – Wages fourth quarter after exit quarter

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Labor and Workforce Development (the Department) is responsible for the administration of the Unemployment Insurance program in the State of New Jersey (the State). Under the Unemployment Insurance program, the Department provides benefits, unemployment compensation (UC), to unemployed workers for periods of involuntary unemployment. The Department is responsible for filing and maintaining supporting documents that are used to create financial and performance reports.

During our testwork over the ETA 2112, *UI Financial Transaction Summary* we noted that for 1 of 3 monthly reports selected for testwork, the Department was not able to provide appropriate supporting documentation for the following line items: State of New Jersey Unemployment Trust Fund Account UCX Advances/Reimbursements, Federal Share Extended Benefits (EB), Federal Emergency Compensations (EUC08), UCFE Advances/Reimbursements, FUTA Credits, Intra-Account Transfer, and Other Benefit Account Payments.

During our testwork over the *Trade Act Participant Report (TAPR)*, we noted that for all quarterly reports selected for testwork, the Department was not able to provide appropriate supporting documentation for all key line items containing critical information, as identified in the Federal OMB Compliance Supplement. The Department provided supporting documentation for edit checks performed through the U.S. Department of Labor Employment and Training Administration website as part of the submission process.

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure all supporting documentation for reports submitted was properly maintained for audit purposes.

Cause

The Department did not maintain documentation to support the amounts reported on the ETA 2112 report for one month. In addition, the Department did not maintain documentation to support all key line items in the TAPR as required.

Effect

The Department submitted financial and performance reports containing information that was not appropriately supported for audit purposes.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Recommendation

We recommend the Department strengthen its policies and procedures to ensure that supporting documentation for all financial and performance reports is appropriately maintained for audit purposes.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted. DLWD will ensure that going forward all necessary supporting documentation is maintained with the ETA 2112 report for all months submitted.

In regards to the Trade Act Participant Report (TAPR), DLWD is undertaking a Trade Act Automation Project. This project, which has the support of DLWD's Commissioner and the New Jersey Office of Information Technology, will provide the data necessary for DLWD to maintain all supporting documentation related to all key line items identified as part of that report.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Disaster Grants – Public Assistance (Presidentially Declared Disasters) (97.036)

Award Years: June 23, 2015 to June 23, 2023; January 22, 2016 to January 22, 2024

Award Numbers: 4231DRNJ00000001 and 4264DRNJ00000001

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Law and Public Safety

Federal Agency: U.S. Department of Homeland Security

Finding: 2016-030 Subrecipient Monitoring

Finding Type: Noncompliance, Significant Deficiency

Prior Year Finding: No

Criteria

Compliance

A pass-through entity (PTE) must:

- *Identify the Award and Applicable Requirements* – Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR section 200.331(a)(3)).
- *Evaluate Risk* – Evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.331(b)). This evaluation of risk may include consideration of such factors as the following:
 1. The subrecipient’s prior experience with the same or similar subawards;
 2. The results of previous audits including whether or not the subrecipient receives single audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;
 3. Whether the subrecipient has new personnel or new or substantially changed systems; and
 4. The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).
- *Monitor* – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.331(d) through (f)). In addition to procedures identified as necessary based

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:

1. Reviewing financial and programmatic (performance and special reports) required by the PTE.
2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
3. Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.

According to 2 CFR Section 200.331(a)(1)(xi) all pass-through entities must identify the dollar amount made available under each Federal award and the CFDA number at the time of disbursement.

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Law and Public Safety (the Department) administers the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program for the State of New Jersey (the State). The Department enters into contracts with various townships (subrecipients) in order to administer the program. The Department is responsible for monitoring the subrecipients and for communicating the required Federal award information at the time of the awarding of the subrecipient's contract and at each disbursement.

We selected forty subrecipients for testwork, of which two received funding under 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. For those two subrecipients, the Department did not perform the following as required by 2 CFR Section 200.331:

- Communicate the CFDA number, federal award identification number (FAIN), period of performance start and end date, indirect cost, amount of federal obligated to the subrecipient, total amount of federal award rate at the time of the award.
- Provide the CFDA number at the time of each disbursement.
- Perform a risk assessment to determine if the subrecipient was high risk.

Total amounts passed through for all subrecipients during State fiscal year 2016 was \$132,705,484. The amount passed through to the two subrecipients included in our sample was \$1,055,057.

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure communication to subrecipients of all the required elements at the time of the award and of each disbursement.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Cause

The Department does not have policies and procedures in place to communicate the required information at the time of award, provide the CFDA number for each disbursement, or perform risk assessments as required by 2 CFR section 200.331.

Effect

Subrecipients may not receive the required communication of Federal award information necessary to complete their required reporting under 2 CFR section 200.502. Additionally, the State may not perform adequate monitoring procedures in relation to a subrecipients assigned level of risk.

Recommendation

We recommend the Department implement policies and procedures to communicate the required information at the time of award and provide the CFDA number and amount with each disbursement. Furthermore, we recommend the Department implement risk assessment policies and procedures to appropriately identify and assign and appropriate level of risk for all its subrecipients for the program.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted. The CFDA number is available to subrecipients in the NJEMGrants system and was added to the description field on all payments effective March 8, 2017.

In addition, OMB has modified its online VPI system to include data fields for CFDA name and number. Enrollment in VPI is available to any vendor or subrecipient doing business with the State and provides users with the ability to obtain detailed payment information for all disbursements processed through the NJCFS. https://www20.state.nj.us/TYM_VPI/home.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Homeland Security Grant Program (97.067)

Award Years: September 1, 2013 to August 31, 2015; September 1, 2014 to August 31, 2016; and September 1, 2015 to August 31, 2018

Award Numbers: EMW-2013SS00032; EMW-2014SS00099; and EMW-2015-SS-00039

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Law and Public Safety

Federal Agency: U.S. Department of Homeland Security

Finding: 2016-031 Subrecipient Monitoring

Finding Type: Noncompliance, Significant Deficiency

Prior Year Finding: No

Criteria

Compliance

A pass-through entity (PTE) must:

- *Identify the Award and Applicable Requirements* – Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR section 200.331(a)(3)).
- *Evaluate Risk* – Evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.331(b)). This evaluation of risk may include consideration of such factors as the following:
 1. The subrecipient’s prior experience with the same or similar subawards;
 2. The results of previous audits including whether or not the subrecipient receives single audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program;
 3. Whether the subrecipient has new personnel or new or substantially changed systems; and
 4. The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).
- *Monitor* – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.331(d) through (f)). In addition to procedures identified as necessary based

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:

1. Reviewing financial and programmatic (performance and special reports) required by the PTE.
2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
3. Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.

According to 2 CFR Section 200.331(a)(1)(xi) all pass-through entities must identify the dollar amount made available under each Federal award and the CFDA number at the time of disbursement.

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The Department of Law and Public Safety (the Department), administers the Homeland Security Grant Program for the State of New Jersey (the State). The Department enters into contracts with various counties (subrecipients) in order to administer the Homeland Security Grant Program locally throughout the State. The Department is responsible for monitoring the subrecipients and for communicating the required Federal award information at the time of the awarding of the subrecipient's contract and at each disbursement.

During our testwork over Homeland Security Grant Program, we noted that for the eight subrecipients included in our sample, the Department did not perform the following as required by 2 CFR Section 200.331:

- Communicate the DUNS number at the time of award for all eight subrecipients.
- Provide the CFDA number at the time of each disbursement for the two subrecipients selected for testwork as only two were tested under Uniform Guidance requirements.

Total amount expended for the Homeland Security Grant Program subrecipients during State fiscal year 2016 was \$22,730,242. The amount passed through to the eight subrecipients included in our sample was \$2,934,839.

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure communication to subrecipients of all the required elements at the time of the award and of each disbursement.

Cause

The Department does not have policies and procedures in place to communicate the required information to subrecipients in accordance with the applicable requirements under 2 CFR section 200.331.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Effect

Subrecipients may not receive the required communication of Federal award information necessary to complete their required reporting under 2 CFR section 200.502.

Recommendation

We recommend the Department implement policies and procedures to communicate the CFDA name and number at the time of disbursement to the respective subrecipient. We also recommend the Department should communicate the DUNS number to the subrecipients at the time of the award.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirement.

Questioned Costs

None

View of Responsible Official

Accepted. The DUNS number will now be requested as part of the application package in order for the Office of Homeland Security and Protection (OHSP) to include the information on the award letter.

All award disbursements are provided electronically. OHSP has no authority over the electronic payment system design; however, OHSP is working on a method to communicate this information to the subrecipient at the time of each disbursement.

In addition, OMB has modified its online VPI system to include data fields for CFDA name and number. Enrollment in VPI is available to any vendor or subrecipient doing business with the State and provides users with the ability to obtain detailed payment information for all disbursements processed through the NJCFS. https://www20.state.nj.us/TYM_VPI/home.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Highway Safety Cluster (20.600, 20.601, 20.612, 20.616)

Award Years: October 1, 2014 to September 30, 2015 and October 1, 2015 to September 30, 2016

Award Numbers: 2015 New Jersey and 2016 New Jersey

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Law and Public Safety

Federal Agency: U.S. Department of Transportation

Finding: 2016-032 Reporting, Matching, and Earmarking

Type of Finding: Noncompliance, Significant Deficiency

Prior Year Finding: Yes, a similar finding was included in the 2015 prior year single audit report as item 2015-022

Criteria

Compliance

Federal-Aid Reimbursement Voucher (OMB No. 2127-0003)

State and Community Highway Safety (CFDA 20.600) - States are required to contribute at least 20 percent, or the applicable sliding scale rate, as stated in the grant award, of the total cost of the program. States are required to pay at least 50%, or the applicable sliding scale rate, as stated in the grant award, if the costs for planning and administration (Indian Nations and Territories are 100 percent federally funded) (23 USC 120(b) and 402(d); 23 CFR section 1200.13(a)).

National Priority Safety Programs (CFDA 20.616) – The States are required to contribute at least 20 percent of the total cost of the program (Indian Nations and Territories are 100 percent federally funded) (23 USC 402(d); 23 CFR section 1200.20(f)).

At least 40 percent of Federal funds apportioned to a State under *State and Community Highway Safety* (CFDA 20.600) for any fiscal year shall be expended by or for the political subdivisions of the State in carrying out local highway safety programs (23 USC 402(b)(1)(C); 23 CFR part 1200, Appendix E).

The Federal costs for planning and administration under *State and Community Highway Safety* (CFDA 20.600) shall not exceed 13 percent of the funds received by the State. Indian Nations are exempt from this requirement (23 CFR section 1200.13(a)).

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Condition

The Department of Law and Public Safety (the Department) is responsible for the administration of the Highway Traffic Safety Program in the State of New Jersey (the State). Under the Highway Traffic Safety program the Department is required to submit Federal-Aid Reimbursement Vouchers to the U.S. Department of Transportation utilizing the Grant Tracking System.

During our testwork over the Federal-Aid Reimbursement Vouchers, we noted that for all four reports selected for testing, supporting documentation was not maintained for the "State/Federal Cost to Date" column.

The Department provided a letter from the Division of State Police certifying State funding used, however the letter did not contain a breakdown of areas where State funding was utilized. Since the reports did not include supporting documentation, compliance with the matching and earmarking requirements could not be verified.

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure all supporting documentation for reports submitted was properly maintained for audit purposes and that support matching and earmarking requirements.

Cause

The Department does not have a formal process in place to maintain support that is used to complete the Federal-Aid Reimbursement Voucher.

Effect

The Department submitted financial reports containing information that was not appropriately supported for audit purposes and could be inaccurate.

Recommendation

We recommend the Department strengthen its policies and procedures to ensure that supporting documentation for each report submitted to the Federal government is appropriately maintained for audit purposes.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirements.

Questioned Costs

None

View of Responsible Official

Accepted. As of March 1, 2017, DHTS has implemented a process to include supporting documentation with the final Federal-Aid Reimbursement Voucher. The letter for federal Fiscal Year 2016 with the final voucher was submitted to the U.S. Department of Transportation on March 1, 2017.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)
Special Supplemental Nutrition Program for Women, Infants, and Children (10.557)
Child and Adult Care Food Program (10.558)
National Guard Military Operations and Maintenance (O&M) Projects (12.401)
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (14.228)
Unemployment Insurance (17.225)
WIA/WIOA Cluster (17.258, 17.259, 17.278)
Highway Safety Cluster (20.600, 20.601, 20.612, 20.616)
Clean Water State Revolving Fund Cluster (66.458)
Title I Grants to Local Education Agencies (84.010)
Special Education Cluster (IDEA) (84.027, 84.173)
Improving Teacher Quality State Grants (84.367)
Public Health Emergency Preparedness (93.069)
Immunization Cooperative Agreements (93.268)
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program (93.505)
TANF Cluster (93.558)
Low-Income Home Energy Assistance (93.568)
CCDF Cluster (93.575, 93.596)
Social Services Block Grant (93.667)
Medicaid Cluster (93.775, 93.777, 93.778)
National Bioterrorism Hospital Preparedness Program (93.889)
HIV Formula Grants (93.917)
Disaster Grants – Public Assistance (Presidentially Declared Disasters) (97.036)
Hazard Mitigation Grant (97.039)
Homeland Security Grant Program (97.067)

Award Years: Various

Award Numbers: Various

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agencies: Department of the Treasury, Office of Management and Budget
Office of Information Technology

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Defense
U.S. Department of Housing and Urban Development
U.S. Department of Labor
U.S. Department of Transportation
U.S. Environmental Protection Agency
U.S. Department of Education
U.S. Department of Health and Human Services
U.S. Department of Homeland Security

Finding: 2016-033 Other Requirements – Information Technology General Controls

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Finding Type: Significant Deficiency

Prior Year Finding: No

Criteria

2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart D, section 200.303 states that non-Federal entities receiving Federal awards (i.e., auditee management) must establish and maintain effective internal control over Federal awards that provides reasonable assurance that the non-Federal entity is managing Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal awards. These internal controls should be in compliance with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62

Condition

The State of New Jersey (the State), Office of Information Technology (OIT) oversees the mainframes, servers, networks, and databases that make up the State’s technical infrastructure, which includes the New Jersey Comprehensive Financial System (NJCFIS), which serves as the general ledger for the State. The infrastructure that NJCFIS sits on is an IBM mainframe using z/OS as its operating system, ACF2 for security access, and VSAM files to house its data.

The State of New Jersey, Office of Management and Budget (OMB) and OIT oversee the use of NJCFIS. As part of OMB and OIT’s oversight for NJCFIS, OMB and OIT in collaboration develop and maintain a general information technology (IT) control environment to ensure the overall effectiveness of the application controls directly associated with NJCFIS. OMB is responsible to ensure application controls are properly monitored to ensure proper design, implementation, and operating effectiveness.

We noted the following deficiencies in the design of IT general controls over NJCFIS:

1. Access at the Data Center at HUB and SAC

- During State fiscal year 2016, there were 274 users ID’s that were assigned to individuals with access to HUB Data Center Server Room. The number of individuals with such access seems excessive based on job responsibilities to maintain servers and networks. In addition, all individuals with access to the Print Facility are able to freely enter and exit the Data Center Server Room due to not having a locked door between both rooms.
- Data Center Access is not limited only to individuals that require access to the SAC and OARS server room. OIT shares the SAC data center where critical NJCFIS systems are held with other State Agencies. During the course of our test work, there were 323 individuals that can access the SAC data center room where servers are housed. Additionally, during the course of our test work, it was noted that 291 individuals have access to the OARS recovery site data center. It was noted that access to the data center server room

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

is not restricted to only those that have assigned responsibilities for which they require access to the data center.

2. Appropriateness of Access

- Two business users from OMB had administrative privileges assigned to them through a security group that is typically assigned to a primary OMB end user with IT responsibilities on the NJCFS application. OMB has implemented a logging mechanism whereby security changes to NJCFS are logged and an audit trail report is available for review. However, review of this report on a periodic basis is not formally documented by OMB.

Cause

1. Access at the Data Center at HUB and SAC

- Access to the Data Center is controlled by a system that provisions access based on groups for which users are assigned. Individuals with access to the Print Facility are able to freely enter and exit the Data Center Server Room due to not having a locked door between both rooms therefore, does not allow control over each individual's need for access.
- Formalized procedures for the review of individuals that have access to the Data Center to validate that they require access to the Server Room are not developed and a review is not conducted.

2. Appropriateness of Access

- Access to the security group on NJCFS was inappropriately assigned to two business users.

Effect

1. Access at the Data Center at HUB and SAC

- There is a risk of inappropriate access to the servers that house critical data for the State to administer its Federal programs.

2. Appropriateness of Access

- Lack of system controls or manual controls could give excessive access to individuals that could lead to business users performing security functions. Individuals that should not have access to the system may be able to access information that is not intended for them.

Recommendation

1. Access at the Data Center at HUB and SAC

- We recommend that OIT perform the following with regard to access to the Data Center:
- Provide access to only those individuals that are required and approved to enter the Data Center.
- Perform reviews of users that can access the Data Center and Server Room on a periodic basis to determine that only appropriate individuals were allowed access to the Data Center and Server Room.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

2. *Appropriateness of Access*

- We recommend that access reviews be performed to the precision of determining whether users do not have excessive access having business and security responsibilities at the same time.

Related Noncompliance

Not applicable as this is an internal control finding.

Questioned Cost

None

View of Responsible Official

Accepted.

Access at the Data Center at Systems and Communications (SAC) and OIT Availability and Recovery Site (OARS)

- *OIT Response:* A Fiscal Year 2016 physical access accounting of users having access to OIT Data Centers and Server Rooms was performed. This is an annual compensating control exercise to assess the propriety of physical access rights into OIT facilities. In Fiscal Year 2017 a material reduction of OIT personnel assigned to the HUB, OARS and SAC has occurred and their reassignments now have them stationed at OIT's River View Plaza headquarters

Appropriateness of Access

- *OMB Response:* The OMB Accounting Bureau has removed the access of the two business users that had access to the NJCFS security group that is typically assigned to a primary OMB end user with IT responsibilities. In the future, no additional OMB NJCFS business users will be assigned this security group. To strengthen compensating control, OMB Accounting will formally document the production of the daily Audit Trail Report and the procedures utilized for the periodic review of the report to verify that no unauthorized or inappropriate changes to NJCFS security have occurred.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

TANF Cluster (93.558)

Award Years: October 1, 2010 to September 30, 2011; October 1, 2011 to September 30, 2012; October 1, 2012 to September 30, 2013; October 1, 2013 to September 30, 2014; October 1, 2014 to September 30, 2015; and October 1, 2015 to September 30, 2016

Award Numbers: 1102NJTANF; 1202NJTANF; 1302NJTANF; 1402NJTANF; 1502NJTANF; and 1601NJTANF

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agencies: Office of Information Technology
Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 2016-034 Other Requirements – Information Technology General Controls

Finding Type: Significant Deficiency

Prior Year Finding: Yes, a similar finding was included in the 2015, 2014, 2013, 2012, 2011, 2010, 2009, 2008 and 2007 prior year single audit reports as items 2015-031, 2014-044, 2013-003, 12-51, 11-15, 10-12, 09-10, 08-44 and 07-8, respectively

Criteria

Internal Control

2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart D, section 200.303 states that non-Federal entities receiving Federal awards (i.e., auditee management) must establish and maintain effective internal control over Federal awards that provides reasonable assurance that the non-Federal entity is managing Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal awards. These internal controls should be in compliance with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Condition

The State of New Jersey (the State), Office of Information Technology (OIT) oversees the mainframes, servers, networks, and databases that make up the State’s technical infrastructure, which includes the Family Assistance Management Information System (FAMIS). The State of New Jersey, Department of Human Services, Division of Family Development (DFD) oversees the use of FAMIS at the County Welfare Agencies (CWAs), which are considered sub-recipients of the State of New Jersey for the TANF Cluster. As part of OIT’s oversight for FAMIS, OIT develops and maintains a general information technology (IT) control environment to ensure the overall

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

effectiveness of the application controls directly associated with FAMIS. DFD is responsible to ensure application controls are properly monitored to ensure proper design, implementation, and operating effectiveness.

We noted the following deficiencies in the design of IT general controls over FAMIS:

1. *Access at the Data Center at HUB and OIT Availability Recovery Site (OARS)*

- During State fiscal year 2016, there were 274 users ID's that were assigned to individuals with access to HUB Data Center Server Room (houses FAMIS Production Systems). The number of individuals with such access seems excessive based on job responsibilities to maintain servers and networks. In addition, all individuals with access to the Print Facility are able to freely enter and exit the Data Center Server Room due to not having a locked door between both rooms.
- During State fiscal year 2016, there were 291 users ID's that were assigned to individuals with access to the OARS Data Center Server Room (houses FAMIS related backup systems). The number of individuals with such access seems excessive based on job responsibilities to maintain servers and networks.
- During State fiscal year 2016, there were 19 terminated users (18 belonged to OIT and 1 belonged to DFD) who had access to the HUB and OARS data centers.

2. *Accountability for Access*

- Due to a BULL mainframe system limitation, a root user account is shared by system administrators. This limits the possibility of tracing activity to an individual.
- Due to HAPS scheduler limitations, a generic user account is shared by job schedule administrators to schedule batch jobs. This limits the possibility of tracing activity to an individual.

3. *Appropriateness of Access*

Our review of terminated employees for DFD noted the following:

- Access for 1 user account was not disabled in a timely manner for FAMIS (access removed after 3 business days)
- Access for 4 user accounts were not disabled in a timely manner for Network (access removed after 184, 308, 52 and 6 business days).
- Access for 2 user accounts were not disabled from FAMIS and they continued to have access after their termination date.
- Access for 16 user accounts access were not disabled from Network and they continued to have access after their termination date.

4. *Disaster Recovery*

- The existing Disaster Recovery (DR) Plan over FAMIS does not reflect State fiscal year 2016 changes and a DR test has not been carried out during State fiscal year 2016.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

5. *Password settings*

- The password settings corresponding to minimum length and password history parameters on FAMIS application were not in line with the password management standard document (State of New Jersey IT Circular No. 14-32-S1-NJOIT).
- The password settings corresponding to minimum length, account lockout and password history parameters on Network were not in line with the password management standard document (State of New Jersey IT Circular No. 14-32-S1-NJOIT).

The Department's policies and procedures to ensure compliance with the above requirements did not include certain internal controls that were designed properly and operating effectively to ensure the overall effectiveness of the application controls directly associated with FAMIS.

Cause

1. *Access to the Data Center at HUB and OARS*

- Access to the Data Center is controlled by a system that provisions access based on groups for which users are assigned. Individuals with access to the Print Facility are able to freely enter and exit the Data Center Server Room due to not having a locked door between both rooms therefore, does not allow control over each individual's need for access.

2. *Accountability for Access*

- System limits the creation of one administrator account which is shared by multiple individuals.

3. *Appropriateness of Access*

- The terminated user's account was not disabled/deleted from the FAMIS application and network in a timely manner.

4. *Disaster Recovery*

- The existing Disaster Recovery Plan was not updated for the current State fiscal year and testing was not performed.

5. *Password Settings*

- The password parameters on the Network and FAMIS application were not configured in accordance with the "Password Management Standards" document.

Effect

1. *Access to the Data Center at HUB and OARS*

- There is a risk of inappropriate access to the servers that house critical data for the State to administer its Federal programs.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

2. *Accountability for Access*

- Activities performed by using the generic user account cannot be traced to an individual, leading to a lack of accountability on accounts that have powerful access.

3. *Appropriateness of Access*

- Delay in removal of access for terminated individuals could result in not having accountability and inappropriate use of information. Individuals that should not have access to the system may be able to access information that is not intended for them.

4. *Disaster Recovery*

- The absence of a periodic recovery tests may prevent recovery of the FAMIS application and relevant data in case of a disaster.

5. *Password Settings*

- Weak passwords could lead to unauthorized access to systems.

Recommendation

1. *Access to the Data Center at HUB and OARS*

- We recommend that OIT perform the following with regard to access to the Data Center:
 - Provide access to only those individuals that require access based on their job responsibility.
 - Perform reviews of users that can access the Data Center and Server Room on a periodic basis for appropriateness or unauthorized access.

2. *Accountability for Access*

- We recommend that OIT establish formalized procedures to review and monitor system access rights for shared accounts and documentation of review be maintained.

3. *Appropriateness of Access*

- We recommend that user accounts should be disabled or deleted on termination or transfer out of the Department/State in a timely manner.

4. *Disaster Recovery*

- We recommend that the Disaster Recovery Plan be updated to the current year and testing be performed periodically to assess the process, tools, and people involved with this process.

5. *Password Settings*

- We recommend that password settings be configured to be in alignment with the “Password Management Standards” document.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Related Noncompliance

Not applicable as this is an internal control finding.

Questioned Costs

None

View of Responsible Official

Accepted.

Access at the Data Center at Systems and Communications (SAC) and OIT Availability and Recovery Site (OARS)

- *OIT Response:* A Fiscal Year 2016 physical access accounting of users having access to OIT Data Centers and Server Rooms was performed. This is an annual compensating control exercise to assess the propriety of physical access rights into OIT facilities. In Fiscal Year 2017 a material reduction of OIT personnel assigned to the HUB, OARS and SAC has occurred and their reassignments now have them stationed at OIT's River View Plaza headquarters.

In regards to the terminated employees having their physical access rights beyond their employment, this will require less reliance on the IDM application and more on third-party payroll records along with OIT HR transitional records for a proper fiscal year accounting towards their termination.

Accountability for Access

- *OIT Response:* Shared account procedures for their review and monitoring, by an independent party, along with documentation of such access rights are to be formalized. Procedural emphasis will be placed on the group account user's periodic eligibility.

Appropriateness of Access

- *OIT Response:* In regards to the terminated employees having their logical access rights beyond their employment, this will require less reliance on the IDM application and more on physical access transitional records for a proper accounting. Logical access rights will then be cross-referenced with physical access rights predetermination for a proper fiscal year accounting towards their termination.

Disaster Recovery

- *DHS Response:* DFD agrees with the audit finding. Disaster Recovery Plan documents have been updated for Fiscal Year 2017 and a recovery procedure will be performed after the tape library upgrades are finalized.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Password Settings

- OIT Response: Password setting changes, recommended for the Network's Active directory, to meet NJ Information Technology Circular # 14-32-S1-NJOIT titled, *Password Management Standard*, needs assessing as to why they differ. Present settings may be continued under NJ Information Technology Circular # 08-02-NJOIT titled, *Information Security Managing Exceptions*.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Hazard Mitigation Grant Program (97.039)

Award Years: April 26, 2007 to April 26, 2015; March 15, 2010 to March 15, 2018; March 12, 2010 to March 12, 2018; March 23, 2010 to March 23, 2018; August 27, 2011 to August 27, 2019; August 13, 2011 to August 13, 2019; September 28, 2011 to September 28, 2019; October 29, 2011 to October 29, 2019; July 19, 2012 to July 19, 2020; and October 26, 2012 to October 26, 2020

Award Numbers: 1694DRNJP00000005; 1867DRNJP00000005; 889DRNJP00000005; 1897DRNJP00000005; 4021DRNJP00000005; 4033DRNJP00000005; 4039DRNJP00000005; 4048DRNJP00000005; 4070DRNJP00000005; and 4086DRNJP00000005

Statistically Valid Sample: The sample was not intended to be, and was not, a statistically valid sample

State Agency: Department of Law and Public Safety

Federal Agency: U.S. Department of Homeland Security

Finding: 2016-035 Subrecipient Monitoring

Finding Type: Significant Deficiency

Prior Year Finding: Yes, a similar finding was included in the 2015 and 2014 prior year single audit reports as items 2015-019 and 2014-018, respectively

Criteria

Internal Control

A non-Federal entity shall maintain internal controls over Federal programs designed to provide reasonable assurance that transactions are executed in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program (2 CFR Section 200.62).

Subrecipient Monitoring

A pass-through entity is responsible for:

- During-the-Award Monitoring – Monitoring the subrecipient’s use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

During-the-Award Monitoring

Following are examples of factors that may affect the nature, timing, and extent of during-the-award monitoring:

- Program complexity – Programs with complex compliance requirements have a higher risk of non-compliance.
- Percentage passed through – The larger the percentage of program awards passed through the greater the need for subrecipient monitoring.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

- Amount of awards – Larger dollar awards are of greater risk.
- Subrecipient risk – Subrecipients may be evaluated as higher risk or lower risk to determine the need for closer monitoring. Generally, new subrecipients would require closer monitoring. For existing subrecipients, based on results of during-the-award monitoring and subrecipient audits, a subrecipient may warrant closer monitoring (e.g., the subrecipient has (1) a history of non-compliance as either a recipient or subrecipient, (2) new personnel, or (3) new or substantially changed systems). Evaluation of subrecipient risk also may take into consideration the extent of Federal monitoring of subrecipient entities that also are recipients of prime Federal awards.

Monitoring activities normally occur throughout the year and may take various forms, such as:

- Reporting – Reviewing financial and performance reports submitted by the subrecipient.
- Site Visits – Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- Regular Contact – Regular contacts with subrecipients and appropriate inquiries concerning program activities.

The requirements for subrecipient monitoring are contained in 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)); 2 CFR sections 200.505, 200.521, and 200.331; A-102 Common Rule (§___.37 and §___.40(a)); OMB Circular A-110 (2 CFR section 215.51(a)); program legislation; 2 CFR section 176.50(c); 2 CFR parts 25 and 170; 48 CFR parts 4, 42, and 52; Federal awarding agency regulations; and the terms and conditions of the award.

Condition

The Department of Law and Public Safety (the Department) is the agency responsible for administration of the Hazard Mitigation Grant Program (HMGP) in the State of New Jersey (the State). In accordance with CFR 206.207, the State is required to develop a plan for the administration of the Public Assistance program. Per review of the State of New Jersey, State Administrative Plan 2016 (the Plan), the Department is responsible for program monitoring and reporting to verify that projects are being completed and that funds are being spent as reported on sub-grantee performance reports. At a minimum, the site visits will be determined based on risk assigned by the State Hazard Mitigation Officer (SMHO) or any project that receives funding of greater than \$250,000. The sub-grantee performance reports are reviewed by the SMHO.

We selected nine subrecipients for testwork, of which eight subrecipients needed the required site visit based on the risk assigned by SMHO. We noted that while the required site visit was performed for all eight subrecipients, there was no evidence that the site visit inspection reports were properly reviewed and approved for six of the eight subrecipients in accordance with the Departments policies and procedures.

The total amount passed through to the subrecipients for these projects was \$1,046,956.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Cause

The Department was not reviewing and approving the State Administrative Plan required site visits prior to submission in accordance with their policies and procedures.

Effect

Site visit inspection reports that are submitted to FEMA may contain inaccurate information.

Recommendation

We recommend that the Department strengthen its policies and procedures to ensure that all FEMA required site visits are being received, reviewed and approved prior to submission.

Related Noncompliance

Not applicable as this is an internal control finding.

Questioned Costs

None

View of Responsible Official

Accepted. The Mitigation Unit is responsible for program monitoring and reporting to verify that projects are being completed and that funds are being spent as reported on the subrecipient's quarterly performance reports. Going forward, in order to strengthen its policies and procedures to ensure that all FEMA required site visit inspection reports are being received, reviewed and approved prior to submission, the Meetings Module in the NJEMGrants system will be updated to include the following changes:

1. A Mitigation Project Manager assigned to each project will enter the information documenting the site visit under Step 1.
2. A Mitigation Supervisor will review the site visit inspection information entered in the Meetings Module and upon approval will advance the site visit to Step 2.