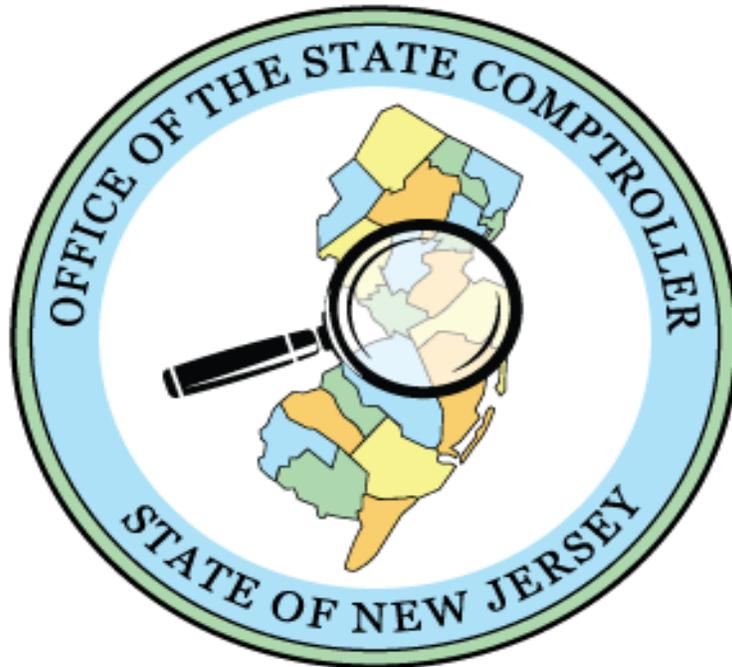


**STATE OF NEW JERSEY
OFFICE OF THE STATE COMPTROLLER**

**ANNUAL REPORT
Fiscal Year 2013**



**IMPROVING THE EFFICIENCY, TRANSPARENCY
AND FISCAL ACCOUNTABILITY OF
NEW JERSEY GOVERNMENT**

**A. Matthew Boxer
COMPTROLLER**

Table of Contents

Letter from State Comptroller Matthew Boxer	1
Overview	5
Audit Division.....	6
Investigations Division	10
Medicaid Fraud Division	13
Procurement Division.....	18
Policies, Procedures and Public Outreach	21
Headlines.....	24



*Dear Governor Christie,
Members of the State Legislature
and Residents of New Jersey:*

Five years have passed since the Office of the State Comptroller first opened for business with a statutory mission to bring greater efficiency, transparency and accountability to the operation of government in New Jersey.

Our goal was to serve as an aggressive and thoughtful advocate for New Jersey's taxpayers, and act as an engine for reform.

Our very first project highlighted the enormity of the task ahead. We took inventory of all the government entities in the state and identified more than 1,900 of them -- another government entity every four square miles with the authority to spend the public's money.

In order to maximize our impact we pursued a wide range of projects, letting public officials across the state know that their actions and efforts were being scrutinized more closely than ever before.

We then delivered our findings with an emphasis on guidance so that our reports could serve as a road map to more efficient government, not only for the subjects of our audits and investigations but for all public officials in New Jersey.

Lastly, we followed up on each of our projects to make sure our recommendations were met and that, wherever possible, taxpayer dollars were recovered.

Our office has grown significantly since that first year, having added two new divisions devoted to recovering improperly spent Medicaid dollars and to investigating misconduct by individual public officials.

Public interest in our office has never been greater. This past fiscal year our reports were made available through social media for the first time and our office's website received more than one million hits, more than doubling our previous high.

Our mission took on added urgency this past year in the aftermath of Superstorm Sandy, as our office was charged with playing a key role in the oversight of billions of dollars in federal reconstruction funds sent to New Jersey to assist residents in rebuilding after the storm. Ensuring that these funds are spent with integrity, transparency and efficiency became a top priority for our office, and we marshaled our resources to address that challenge.

One of our most important responsibilities has been to pre-screen all state Sandy contracts, regardless of size, in a thorough but expeditious manner. By the close of the fiscal year, our Procurement Division had pre-screened 120 Sandy-related contracts and worked with the responsible state agencies to make significant changes to many of them. Those contracts are available for the public to view on the Sandy transparency website maintained by our office.

That website, which recently was named the best state website of the year by the Documents Association of New Jersey, also includes a "funds tracker" that allows the public to view how and where the state has allocated its Sandy funding. It also contains information regarding available funding for Sandy-related programs and a breakdown of Sandy funding by federal department. Our new Sandy oversight responsibilities, however, have not detracted from our work in other areas.

In fact, our Medicaid Fraud Division set a new state record for recoveries of misspent Medicaid funds this past year, returning \$122.8 million to the Medicaid program.

Our office also continued to produce a wide range of high-impact reports from all four of our divisions in FY 2013.

The office made national news in May with an audit that found thousands of inmates were collecting unemployment checks from behind bars. By cross-referencing data on county and state inmates with data on various government assistance programs, our auditors found that New Jersey spent more than \$23 million over a 22-month period to provide not only unemployment benefits but Medicaid coverage and other financial assistance to individuals who did not qualify for such government help because they were incarcerated at the time.

As a result of the audit, the state departments responsible for administering these government assistance programs have committed to recovering the misspent funds and implementing oversight improvements that will save taxpayers millions of dollars going forward.

Similarly, through the efforts of our Investigations Division we uncovered widespread improper participation in the state pension system by attorneys and other professionals working as independent contractors for local governments. Our review of 58 municipalities and school districts found all but one of those local governments had failed to comply with a 2007 state law that required all public entities to determine whether their professional service providers were bona fide employees as opposed to independent contractors. Amazingly, in some cases local governments had opted to keep their attorney enrolled in the pension system based on the legal advice of the same attorney whose pension eligibility was in question.

As a result of that investigation our office referred 202 pension enrollees to the state Division of Pensions and Benefits for review and removal of improper pension credits. Since the release of our report, Governor Christie has signed an executive order establishing a Pension Fraud and Abuse Unit to ensure that pension credits are received only by those government employees who are entitled to them.

In March, our Medicaid Fraud Division cast a spotlight on the Adult Medical Day Care industry with a series of investigations that uncovered a pattern of improper billings at five such facilities. The investigation found those facilities had billed the Medicaid program for a range of services they could not substantiate and, in many cases, for individuals who were not even in attendance on the dates in question.

In FY 2013, we also returned to themes from past projects, such as shining a light on inappropriate public employee compensation. Our audit of the Middlesex County Improvement Authority, for example, served to remind that it is never appropriate to provide hidden compensation to public officials. Our auditors found the authority paid its top four officials more than \$100,000 annually in “management incentive” bonuses that were not part of their employment contracts. The bonuses were not based on any measurable performance criteria tied to the authority’s goals.

Many of our key projects in FY 2013 included important guidance for public entities to rely upon in improving the efficiency of their operations. The guidance ranged from an examination of legal billing practices to a statewide alert advising local governments to look out for undisclosed and potentially costly side agreements between administrators of workers’ compensation programs and outside vendors.

The legal billings report was produced by our Procurement Division, which conducted an analysis of three municipalities and two school districts to serve as a case study for local governments to consult when engaging and managing legal counsel. The review documented various flaws and deficiencies that led to overbilling, increased legal costs and duplicative and unauthorized services being performed by the legal counsel at those five entities. One township had paid an attorney a salary for years and yet was unable to identify any services the attorney actually provided. After our staff requested additional information, the attorney in question resigned from his position. That case has been referred to the Division of Criminal Justice.

Similarly, an investigation into a controversial local government land deal served as guidance for local officials in addressing potential conflicts of interest involving planning boards. Our investigation determined that a longtime Chesterfield public official used his political influence and insider knowledge as both a township committeeman and planning board member to push a complicated development project through multiple government hurdles. In doing so, our investigators found, the committeeman shielded the fact that he personally had more than a million dollars at stake in the outcome of the project. The report also called for a substantial increase in penalties for violations of the Local Government Ethics Law.

As always, our office also continued to follow up on reports from previous years. For example, a follow-up to our 2010 audit of the New Jersey Turnpike Authority found the agency had instituted significant cost-saving reforms in response to our recommendations. The Turnpike Authority implemented changes in its health care coverage projected to save \$3 million to \$5 million over a three-year period. The agency also eliminated wasteful spending, including unjustified employee bonuses, annual sick leave payouts and “employee relations” payments for unnecessary costs such as the sponsorship of an employee bowling league.

Looking back, we’re proud of our accomplishments in the past fiscal year and those of the past five years. We look forward to continuing our pursuit of results and reform on behalf of the taxpayers of New Jersey.

A. Matthew Boxer

State Comptroller

OVERVIEW

Since we began operations in January 2008, the Office of the State Comptroller (OSC) has served as an advocate for taxpayers and a leader in bringing about government reform. OSC reports have focused on bringing greater efficiency, transparency and analysis to the operation of all levels of government in New Jersey.

OSC's mission took on increased significance in Fiscal Year (FY) 2013 as the office played a key role in the oversight of billions of dollars in federal reconstruction funds sent to New Jersey following Superstorm Sandy.

Under Executive Order 125, signed by Governor Chris Christie, the office pre-screened all state contracts involving Sandy relief funds to ensure that the proposed vendor-selection process complied with public contracting laws. OSC also established a Sandy website, www.nj.gov/comptroller/sandytransparency, that allows the public access to all Sandy-related contracts entered into by the state. The site also includes a "funds tracker" that enables the public to view how and where the state has allocated its Sandy funding.

In addition, this past fiscal year OSC began conducting risk assessments of public entities receiving federal reconstruction funds, maintained a Sandy fraud hotline to field tips about waste and abuse of reconstruction funds, and issued guidance to municipalities and other entities involved in post-Sandy reconstruction. An OSC representative also sits on the Attorney General's Statewide Sandy Fraud Working Group, which pools investigative tips regarding the expenditure of Sandy-related funds.

Even with those added responsibilities, OSC continued to produce a series of audits and

investigations in FY 2013 that resulted in the recovery of tens of millions of dollars for taxpayers, while also setting forth recommendations that, when implemented, should result in millions of dollars in additional taxpayer savings. In addition, the office's proactive anti-fraud efforts led to the avoidance of hundreds of millions of dollars in unnecessary expenses for the New Jersey Medicaid program.

The office also expanded its public outreach efforts in FY 2013, sharing its reports and other news on social media networks for the first time. The office website, www.state.nj.us/comptroller, received more than one million hits in FY 2013, doubling its previous high.

Organizationally, OSC consists of four divisions that work in a coordinated fashion while carrying out distinct functions. They are the Audit Division, the Investigations Division, the Medicaid Fraud Division and the Procurement Division. The sections of this report that follow briefly explain the role of each division while setting forth highlights of OSC accomplishments from the past fiscal year of July 1, 2012 to June 30, 2013.



State Comptroller Matthew Boxer speaks at Gov. Christie's signing of Executive Order 125, which gave OSC a key role in the oversight of billions of dollars in federal reconstruction funds sent to New Jersey after Superstorm Sandy.

AUDIT DIVISION

OSC's Audit Division conducts audits and reviews the performance of New Jersey state government, public institutions of higher education, independent state authorities, local governments and school districts. During FY 2013, Audit Division reports identified tens of millions of dollars in potential public savings while documenting millions more in savings realized through the implementation of recommendations from previous OSC audits.

The division is led by William P. Challice, whose previous 35 years of experience with the New York State Comptroller's Office included 20 years as audit director. Mr. Challice also is the former chair of the New York/New Jersey Intergovernmental Audit Forum and past president of the Trenton Chapter of the Association of Government Accountants.

The Audit Division staff includes numerous members who possess certifications or professional designations such as Certified Public Accountant, Certified Government Financial Manager, Certified Internal Auditor, Certified Fraud Examiner and Certified Information Systems Auditor. OSC audit staff continued to refine and update their training this past year and supplemented that training with attendance at various sessions sponsored by groups such as the Association of Government Accountants, the National State Auditors Association, and the National Association of State Auditors, Comptrollers and Treasurers (NASACT). Staff members also take part in the NASACT peer review program, participating in reviews of governmental auditing agencies in other states.

OSC's Audit Division also includes information technology (IT) specialists whose role includes

implementing and maintaining OSC's IT infrastructure, including the Audit Division's electronic workpaper software. The IT audit group is an important part of every audit we engage, offering their expertise on a range of issues, from providing technical assistance to providing evaluations of the IT operations of the entity being audited. The IT audit group assists in pre-planning work for upcoming audits and provides training to OSC staff in computer hardware, software and other IT-related audit topics. The IT audit group also assists other OSC divisions in areas such as work-flow reporting.

During FY 2013, Audit Division reports identified tens of millions of dollars in potential public savings.

The IT group also lends its expertise to other state agencies. For example, in FY 2013, it assisted the Division of Elections in improving its methodology for data collection. In addition, OSC's IT audit group held a forum in FY 2013 that

provided an opportunity for counties that have adopted shared services initiatives to share their experiences with IT directors from each of the 21 counties in New Jersey. The forum highlighted best practices that are being used in sharing IT services in order to reduce public costs.

OSC's Audit Division also includes a Planning and Analysis Unit that consists of a team of social science researchers who perform preliminary evaluations and make recommendations regarding potential audits. Upon engaging an audit, members of the Planning and Analysis Unit may accompany the audit team into the field to collect, document and analyze data for the audit.

The unit also produces non-audit research reports designed to shed light on specific policy issues. These reports have focused on a variety of significant topics

in an attempt to develop legislative and other programmatic proposals to save tax dollars.

Examples of Audit Division work in FY 2013 are set forth below. OSC audit reports can be viewed in their entirety on our website.

New Jersey Shares, Inc. - Selected Fiscal and Operating Practices

New Jersey Shares, Inc. is a non-profit company that administers a state-funded program that provides temporary financial assistance to help qualifying individuals and families pay their energy bills. OSC auditors found the program would benefit from stronger oversight and stricter eligibility guidelines. The audit detailed questionable expenditures of program funds as well as flaws in the non-profit agency's procedures for determining which individuals and families are eligible for energy assistance grants. A sample of 338 grant recipients found 114 of those grant recipients should have been deemed ineligible. The audit found many applicants had disclosed only a portion of their income to gain entry into the program. For example, one two-member household reported a gross monthly income of \$2,845 on their program application yet reported a total income of more than \$140,000 on their tax return for that year.

Middlesex County Improvement Authority - Selected Procurement and Financial Operating Practices

This audit found the Middlesex County Improvement Authority (MCIA) paid substantial annual bonuses to its upper management that were not called for in their employment contracts. A review of individual payroll

records found MCIA paid its top four officials more than \$100,000 annually in such "management incentive" bonuses, in addition to their annual contractual salary increases. The bonuses, which date as far back as 1998, were not based on any measurable performance criteria tied to the authority's goals. The audit also found MCIA's procurement practices did not comply with state law, while failing to include key vendor-selection criteria such as cost. The audit also determined MCIA's outside legal counsel has been improperly receiving MCIA-funded health and pension benefits.

An OSC IT audit found that over a 22-month period, the State of New Jersey spent more than \$23 million to provide unemployment benefits, Medicaid coverage and other financial assistance to individuals who did not qualify for such government help.

Audit of Improper Benefit Payments to Incarcerated Individuals

This IT audit found that over a 22-month period, the State of New Jersey spent more than \$23 million to provide unemployment benefits, Medicaid coverage and other financial assistance to individuals

who did not qualify for such government help because they were incarcerated at the time they received the benefit. OSC found state agencies had failed to review county inmate data, and in some cases state prison data, before awarding the government assistance. One agency told OSC it relied on its review of New Jersey newspapers to determine if any of its thousands of program participants had been arrested or convicted of a crime. OSC found that one individual began receiving unemployment payments only after he already had been in prison for three months. In many cases, the improper benefit payments were for services that the correctional institutions themselves already provide to inmates in their custody, such as food and health care. The state departments responsible for administering each of these programs have committed to recovering the misspent funds and improving oversight measures so

that going forward all inmate data is cross-checked to verify participant eligibility.

Follow-Up Reports, Progress Updates and Future Audits

OSC obtains corrective action plans from each entity we audit to ensure proper implementation of our audit recommendations. OSC subsequently conducts on-site follow-up reviews to determine compliance with those corrective action plans.

For example, an FY 2013 follow-up to an earlier audit of the **New Jersey Turnpike Authority** found the agency had instituted significant cost-saving reforms in response to OSC's recommendations. OSC's follow-up review found that Turnpike officials had made changes to lower the cost of the authority's health insurance coverage and reform the authority's procurement procedures. In responding to OSC's recommendation to evaluate options for cheaper health care coverage, the Turnpike Authority implemented changes projected to save \$3 million to \$5 million over a three-year period. The agency also eliminated wasteful spending identified in the initial OSC audit, including unjustified employee bonuses, annual sick leave payouts and "employee relations" payments for unnecessary costs such as the sponsorship of an employee bowling league.

In FY 2013, the Audit Division also conducted a follow-up to its audit of **Atlantic City** and found city officials have made progress in strengthening government operations, though further improvements are needed to bring the city into full compliance with the audit's recommendations.

FY 2013 also saw progress concerning recommendations from a number of other past OSC Audit Division reports. For example:

- a series of municipalities reported that they switched to the less expensive state health plan based on OSC's 2012 health benefits audit report;
- Union County College followed up on an OSC report regarding expenses paid to community college presidents and reached a settlement with its president that resulted in the recovery of \$200,000 in improper payments; and
- the state Department of Human Services has reported that the waiting list for state-subsidized child care has dropped substantially following implementation of our recommendations from a 2012 OSC audit of the program.

OSC will continue to monitor the steps being taken by all public entities that we audit to ensure that our recommendations are implemented in an appropriate timeframe.

Pending OSC audit work ensures that FY 2014 will be as productive and significant for the office as previous years. Our staff is working throughout the state on a number of audits that are at various stages of completion. For example, these include audits of:

- state colleges' use of student fees;
- municipal utilities authorities; and
- fiscal practices in various municipalities.

Collectively, these audits provide the broad spectrum of audit coverage called for by OSC's enabling legislation.

Guidance

In FY 2013, OSC's Audit Division also continued its ongoing efforts to provide helpful guidance and training to government officials throughout the state. For example, the Audit Division's internal controls guide, which is available on OSC's website, provides information for all government units to utilize in designing and maintaining an effective internal control system.

The Audit Division is also evaluating each of the municipalities receiving Superstorm Sandy reconstruction funding to conduct risk assessments and assess the reliability of their internal control systems. Based on the results of those assessments, OSC will review selected contracts awarded by particular municipalities and their related expenditures of funds.

AUDIT DIVISION - *BY THE NUMBERS*

34 - Percentage of participants in state-funded energy assistance program who actually were ineligible for assistance based on their true income.

\$100,000 - Amount of annual "management incentive" bonuses paid to top four officials at the Middlesex County Improvement Authority, even though the bonuses were not referenced in their contracts or based on merit.

\$3 - \$5 million - Savings that New Jersey Turnpike Authority projects it will realize over a three-year period after following an OSC recommendation to re-evaluate its health insurance coverage.

\$23 million - Amount of government benefits improperly paid to incarcerated individuals over a 22-month period.

INVESTIGATIONS DIVISION

OSC's Investigations Division works to detect and uncover fraud, waste and misconduct involving the management of public funds and the performance of government officers, employees and programs.

The division is led by director Noelle Maloney, who joined the office with extensive experience at several federal agencies. Ms. Maloney most recently served as Deputy Inspector General at the United States Securities and Exchange Commission, where she oversaw investigations into allegations of fraud and misconduct.

The division consists of a staff of investigators and attorneys, including former federal and state law enforcement officials from agencies such as the Federal Bureau of Investigation, the United States Postal Inspection Service and the New Jersey State Police.

OSC's investigators field and review all tips, referrals and allegations provided to the office. Those tips come both from the general public and from government employees, and are received through OSC's toll-free hotline, via e-mail or through the mail. The hotline is also used as the official statewide hotline for any public tips regarding the waste or abuse of Sandy recovery funds. All tips are assigned to a specific investigator who reviews the information provided to determine whether further action is warranted from this office or from another government agency.

In FY 2013, the Investigations Division fielded 352 tips, some of which led to OSC audits and investigative reports. Other tips are often resolved through a simple phone call or a letter that leads to remedial action.

OSC's Investigations Division also made 78 referrals to other state, county and federal agencies in FY 2013, including the United States Attorney's Office, the state Division of Criminal Justice, the New Jersey State Police, the Division of Taxation, the State Ethics Commission, the Local Finance Board and the Department of Education. Such referrals periodically lead to criminal convictions, such as an OSC referral of a former fire department treasurer that led to a conviction for embezzlement.

Conversely, the Investigations Divisions also conducts inquiries based on referrals from other state agencies. For example, responding to a request from the state Department of Education (DOE), OSC conducted a review of the recent implementation of school superintendent salary caps. Though the review did not uncover evidence of systemic abuse, OSC recommended DOE limit the number of sick, vacation, personal and holiday leave days awarded to school administrators, noting that overly generous awards of leave time could be used as a means to increase compensation without technically exceeding the salary cap. OSC also noted instances where school administrators' contract provisions conflicted with the information published by the school districts in their budget documents. OSC recommended additional training in the use of budget summaries to ensure that public information about employee compensation is both transparent and accurate.

Our joint efforts with these other agencies continue to build a synergy that has led to increasingly robust investigative efforts across state government. For example, the Investigations Division also takes part in a collaborative working group of agencies called the Statewide Sandy Fraud Working Group, chaired by the Office of the Attorney General, to pool tips on

possible Sandy-related scams and fraud, avoiding duplication of efforts and resulting in better coordination of investigations. To date, OSC has referred eight cases to the working group.

In addition, the Investigations Division serves as a key resource for other divisions within OSC by helping to identify potential subjects for audits, helping to conduct witness interviews and utilizing a variety of investigative tools to assess and document relevant facts. The division's work this past year was instrumental, for example, in OSC's audit of government benefits improperly paid to incarcerated individuals, as well as OSC's report on improper payments for legal services.

The individuals referred by OSC for pension-credit removal collectively had accrued pension credits that could have resulted in the state paying them a total of approximately \$1.9 million per year in pension benefits.

credits that could have resulted in the state paying them a total of approximately \$1.9 million per year in pension benefits. The pension credits of six individuals were voluntarily removed by local governments based on OSC's inquiries, while several other governments not included in the report took action to remove enrollees on their own after the report's release. The Division of Pensions and Benefits is now conducting a similar review of pension eligibility at other government entities throughout the state. In addition, Governor Christie has signed an executive order establishing a Pension Fraud and Abuse Unit within the state Treasury Department that will work with OSC and the Attorney General's Office to identify and investigate cases of suspected pension fraud.

The Investigations Division also produced the following public reports in FY 2013:

Improper Participation by Professional Service Providers in the State Pension System

As a result of this investigation, OSC referred 202 pension enrollees to the state Division of Pensions and Benefits for review and removal of improper pension credits. OSC reviewed 58 municipalities and school districts and found that 57 of those local governments had failed to comply with a 2007 state law that required all public entities to determine whether their professional service providers were bona fide employees as opposed to independent contractors. In some cases, local governments had opted to keep their attorney enrolled in the pension system based on the legal advice of the same attorney whose pension eligibility was in question. The group referred for pension-credit removal included 176 attorneys, 21 engineers, four health care professionals and one auditor, who collectively had accrued pension

Township Committeeman's Conflict of Interest Results in Improper Financial Gain

This OSC investigation highlighted how weaknesses in current state law can leave local planning board decisions vulnerable to the personal interests of public officials. OSC determined that a longtime Chesterfield public official used his political influence and insider knowledge as both a township committeeman and a planning board member to push a complicated development project through multiple government hurdles. In doing so, OSC found, the committeeman shielded the fact that he personally had more than a million dollars at stake in the outcome of the project. OSC referred its findings to the state's Division of Criminal Justice and also called for a substantial increase in penalties for violations of the Local Government Ethics Law. The report also provided guidance to local officials addressing potential conflicts of interest involving planning boards.

Hidden Costs in Administering Workers' Compensation Programs

Working off of a tip from a government agency, OSC found that the costs of workers' compensation programs at government agencies are being inflated because of undisclosed side agreements between administrators of the program and outside vendors. OSC issued an alert to all government agencies advising them to look out for these hidden arrangements because of their potential for increasing costs to taxpayers.

INVESTIGATIONS DIVISION - *BY THE NUMBERS*

78 - Referrals made by OSC investigators to state and federal law enforcement offices and other agencies.

98 - Percentage of municipalities and school districts, of the 58 reviewed by OSC, that had failed to comply with state law regarding pension eligibility.

202 - Individuals referred to the state Division of Pensions and Benefits for review and removal of improper pension credits based on OSC's investigation.

352 - Tips fielded by OSC's Investigations Division.

MEDICAID FRAUD DIVISION

OSC's Medicaid Fraud Division (MFD) serves as the state's independent watchdog for New Jersey's various Medicaid programs and works to ensure that the state's Medicaid dollars are being spent effectively and efficiently.

As part of its oversight role, MFD recovers improperly expended Medicaid funds, reviews the quality of care provided to Medicaid recipients and pursues civil and administrative enforcement actions against those who engage in fraud, waste or abuse within the Medicaid program. MFD also excludes or terminates ineligible health care providers from the Medicaid program where necessary and conducts educational programs for Medicaid providers and contractors.

In FY 2013, MFD recovered a state-record \$122,856,903 in improperly paid Medicaid funds, which were returned to both the state and federal budgets. In addition, an estimated \$392 million in other potential Medicaid expenses were avoided through MFD's proactive anti-fraud efforts. MFD also excluded 60 ineligible providers from participating in the Medicaid program.

The division is led by director Mark Anderson, a former auditor and Assistant United States Attorney. As a recognized expert in the area of Medicaid fraud, Mr. Anderson has testified at legislative hearings concerning Medicaid issues and has been a featured speaker at numerous Medicaid-related conferences.

Operating under the authority of the Medicaid Program Integrity and Protection Act, MFD provides oversight concerning the following programs:

- New Jersey's Medicaid program, which provides health insurance to qualifying

parents and caretakers and their dependent children, along with pregnant women and individuals who are aged, blind or disabled. The program pays, for example, for hospital services, doctor visits, prescriptions, nursing home care and other health care needs.

- New Jersey FamilyCare, a Medicaid-type program for uninsured children whose family income is too high to qualify for traditional Medicaid but not high enough for the family to afford private health insurance. Combined, the Medicaid and New Jersey FamilyCare programs serve more than one million New Jersey residents.
- The New Jersey Hospital Care Payment Assistance Program, commonly known as Charity Care, which provides free or reduced-charge services to patients who require care at New Jersey hospitals.

MFD's oversight focuses on Medicaid health care providers, managed care organizations and Medicaid recipients, while coordinating oversight efforts among all state agencies that administer Medicaid program services.

**If you suspect Medicaid
fraud or abuse in
New Jersey:**

**Call toll free: 1-888-937-2835
or visit:**

[www.state.nj.us/comptroller/
divisions/medicaid](http://www.state.nj.us/comptroller/divisions/medicaid)

MFD consists of three units: Fiscal Integrity, Investigations and Regulatory. Each of those units will be discussed in turn.

Fiscal Integrity Unit

The Fiscal Integrity Unit focuses on data mining, audits, financial recoveries, provider exclusions and liability of third parties for expenses improperly paid by the Medicaid program.

Data Mining

MFD's data mining group typically is involved in the initial stages of the process leading to the recovery of improperly paid Medicaid dollars. The unit employs a variety of analytical techniques to detect anomalous or abnormal Medicaid claims submitted by providers. Its findings often lead to MFD audits and investigations.

In FY 2013, MFD recovered a state-record \$122,856,903 in improperly paid Medicaid funds, which were returned to both the state and federal budgets.

In order to identify patterns of anomalous Medicaid reimbursements, OSC's data miners review Medicaid fraud reports and investigations from other states and work with a range of additional sources to acquire pertinent data. The data mining group also monitors the Surveillance and Utilization Review System, a federally mandated exception reporting system, for indications of fraud and abuse and to detect duplicate, inconsistent or excessive claim payments.

In total, MFD's data mining group referred 65 cases of anomalous claims behavior to MFD's audit and investigations units in FY 2013. For example, one data review identified that a Nurse Practitioner had billed for hours beyond a traditional work day on more than 300 occasions. Those findings led to an MFD investigation that further determined that

multiple unlicensed providers from that same office were improperly billing the Medicaid program.

Audits

In FY 2013, MFD conducted audits of a wide range of health care organizations, including a long-term care facility, a managed care organization (MCO) and a federally qualified health center. Such audits are conducted to ensure that Medicaid providers comply with program requirements, to identify improper billings submitted by Medicaid providers and to deter fraud, waste and abuse in the Medicaid program.

For example, an MFD audit of a long-term care facility found that the facility billed Medicaid for services that should have been covered by another health insurer. MFD has since recovered the majority of those funds.

Another MFD audit found that a company that administers a personal care services program for the elderly and disabled had failed to return to the state millions of dollars in unused program funds over a period of years. Those funds are now in the process of being recovered.

MFD's audit group, working with other MFD personnel, also oversees, reviews and coordinates audit work performed by other entities that have contracted with the state to audit specific types of providers. For example, the Affordable Care Act requires each state's Medicaid program to contract with a Recovery Audit Contractor to identify and recoup overpayments to Medicaid providers. MFD oversees the state's contract with this external auditor, coordinates the audits and reviews audit findings. In total, during FY 2013 MFD oversaw the recovery of

more than \$8 million in overpayments that were identified by New Jersey's Recovery Audit Contractor.

MFD also is continuing with its effort to audit each of the state's Medicaid MCOs. Its latest audit found that another MCO had failed to fulfill contractual obligations designed to lower insurance costs through the aggressive recovery of misspent state Medicaid dollars. Specifically, the audit found that the MCO did not comply with state requirements concerning its special investigations unit, which is dedicated to the detection of fraud and abuse by providers and enrollees within its network.

Recoveries and Exclusions

Our Recoveries and Exclusions group (R&E) recovers overpayments that are identified by MFD's auditors and investigators and determines when to exclude a Medicaid provider from the Medicaid program. In cases of intentional fraud, R&E may also assess additional penalties against a provider.

Once MFD identifies overpayments to be recovered, R&E sends out appropriate notices, recovers the money from providers and recipients on behalf of the state and works with federal authorities to ensure that the federal government receives its share of any recovery. In instances where R&E cannot resolve an overpayment through a settlement, MFD will take administrative action against the provider or recipient.

Providers can be excluded from participating in the Medicaid program for numerous reasons including criminal convictions, exclusions by another state or the federal government, or adverse action taken by a licensing board. Providers can be excluded for a set number of years or, in some cases, until they provide

sufficient evidence supporting reinstatement. Actions taken against these individuals are part of an ongoing OSC effort to ensure that only those medical providers who maintain the highest integrity may participate in the Medicaid program.

In FY 2013, MFD excluded 60 providers, including physicians, pharmacists and home care nurses' aides.

Third Party Liability

Under federal law, if a Medicaid recipient has other insurance coverage Medicaid is responsible for paying medical benefits only in cases where the other coverage has been exhausted or does not cover the service at issue. Thus, a significant amount of the state's Medicaid recoveries are the result of MFD's efforts to obtain payments from third-party insurers responsible for services that were inappropriately paid with Medicaid funds. MFD's Third Party Liability group, working with an outside vendor, seeks to determine whether Medicaid recipients have other insurance and recovers money from those private insurers in cases where Medicaid has paid claims for which the private insurer was responsible. In addition, the Third Party Liability group also manages a daily hotline for the public and providers to call and update third party commercial insurance information for Medicaid recipients.

Investigations Unit

MFD's Investigations Unit is charged with investigating inappropriate conduct on the part of Medicaid, FamilyCare and Charity Care providers and recipients. In FY 2013, the Investigations Unit opened 294 cases and made 45 referrals to other agencies such as the Attorney General's Medicaid

MFD's Investigations Unit conducted a series of investigations that uncovered a pattern of improper Medicaid billings at five Adult Medical Day Care facilities.

Fraud Control Unit, county prosecutors' offices and various county boards of social services. Cases handled by the Investigations Unit included cases involving allegations of fraud committed by Medicaid recipients, providers billing for services not rendered and issues regarding Medicaid eligibility.

MFD investigators receive allegations of fraud and waste from many sources including MFD's hotline and website as well as from other state and federal agencies. In total, MFD received 558 tips in FY 2013.

For example, the unit conducted a series of investigations that uncovered a pattern of **improper Medicaid billings at five Adult Medical Day Care (AMDC) facilities**. The investigations also raised questions about whether patients at the facilities were receiving proper care. MFD investigators found the AMDC facilities billed the Medicaid program for a range of services they could not substantiate and, in many cases, for individuals who were not even in attendance at the facility on the dates in question. A review of patient records further uncovered a failure to perform or document essential clinical and medical tasks, such as monitoring blood sugar and blood pressure for patients who attended the facility for the purpose of receiving such services. OSC has obtained or is actively seeking financial recoveries from each of the five facilities referenced in the investigative report.

Another MFD investigation found a dental group had forged Medicaid reimbursement documents over a period of years in order to conceal that its owner, who had suffered a medical condition that left him incapacitated and no longer able to treat patients, had been replaced with a dentist who was debarred from the Medicaid program. As a result of the investigation, OSC filed a Notice of Claim seeking more than \$1.3 million from the **Gentle Dental Group** in East Orange for improperly reimbursed claims as well as damages and penalties. The

investigation found that Gentle Dental had forged the incapacitated doctor's signature and improperly used his Medicaid provider number when submitting Medicaid reimbursement claims.

Another key role of the Investigations Unit is to coordinate with the United States Attorney's Office and the Office of the Attorney General on Medicaid-related whistleblower cases filed under the federal and New Jersey false claims acts. In FY 2013, more than \$40 million was recovered through these types of cases.

To ensure the integrity of the Medicaid program's enrollment process, the Investigations Unit also conducts background checks of providers applying to participate in the program. In FY 2013, the Investigations Unit received 215 such applications from pharmacies, medical equipment providers, adult medical day care centers, physicians and others. The unit has thus far denied 15 of those applications based on a number of concerns, including: licensing actions pending against the applicant; failing to disclose required information on the application; pending criminal proceedings involving the applicant; and applications filed on behalf of non-operational entities.

The Investigations Unit also conducts pre-enrollment and post-enrollment site visits of Medicaid providers. During those site visits, MFD investigators verify that the applying entity is actually in existence, that it is in compliance with state and federal requirements and that the information supplied on provider applications is accurate.

In FY 2013, the work of the Investigations Unit resulted in the recovery of \$4,751,740 in misspent Medicaid funds.

Regulatory Unit

In addition to returning Medicaid dollars back to the state through monetary recoveries, MFD also works with other state departments to propose new Medicaid program regulations designed to improve program integrity. MFD's Regulatory Unit consists of licensed attorneys who provide such input to other state departments while working with those departments to develop changes that strengthen Medicaid rules. The unit's regulatory officers also appear before the Office of Administrative Law on behalf of MFD in contested Medicaid fraud and abuse cases such as the cases described above.

MEDICAID FRAUD DIVISION - *BY THE NUMBERS*

45 - Referrals made by MFD to state and federal law enforcement offices and other agencies.

60 - Number of health care providers excluded from the Medicaid program by OSC.

\$122 million - Total MFD recoveries for taxpayers in FY 2013, a state record.

\$392 million - Potential Medicaid expenses avoided through MFD's proactive anti-fraud efforts.

PROCUREMENT DIVISION

OSC's Procurement Division, staffed by attorneys specializing in public contract law, fulfills the office's statutory mandate to review public agency procurements exceeding \$2 million. In addition to reviewing contracts, the attorneys of the Procurement Division work with OSC's audit teams and provide guidance concerning the many legal issues that arise during the course of an audit.

The division is led by Karen H. Shelton, a former Assistant United States Attorney in the Civil Division of the District of New Jersey, who has extensive experience litigating for and counseling government agencies.

Contract Reviews

As prescribed by statute, the Procurement Division pre-screens the legality of the proposed vendor-selection process for all government contracts exceeding \$10 million and has post-award oversight responsibilities for contracts exceeding \$2 million. OSC's procurement reviews cover contracts awarded by municipalities, school districts, colleges, and state authorities and departments, as well as other public boards and commissions with contracting authority.

Regulations promulgated by OSC assist public entities in determining whether OSC review is required for a particular contract and provide guidance as to how OSC reviews are conducted. Procurements subject to OSC review cover a wide range of contracts including land sales, leases, purchases of goods or services, and grant agreements.

For contracts exceeding \$10 million, the Procurement Division works closely with government entities as they formulate specifications, intervening when

necessary to achieve procurements that comply with all applicable laws, regulations and rules. Errors are corrected before the contract advertisement takes place.

The review of contracts valued at more than \$10 million begins with judging the appropriateness of the vendor-selection process proposed by the contracting unit. The reviewing attorney assesses, for example, whether the procurement requires sealed bids or whether other contracting procedures are appropriate. The reviewer further determines whether the government unit has followed all other statutes, rules and regulations applicable to the procurement. Additional questions asked include: Has the governing body, department or authority approved the procurement? Are the specifications designed to ensure a competitive process? Is the method of advertisement appropriate?

For contracts exceeding \$10 million, the contracting unit must submit notification to OSC thirty days before advertising or otherwise entering into a contract. On occasion, contracting units request flexibility in that time period. Accordingly, OSC has set forth a procedure through which government entities can seek a waiver of the 30-day time frame. OSC works closely with contracting units needing such a waiver to ensure that contract solicitations can be made in a timely manner.

Contracts exceeding \$2 million, including \$10 million contracts previously submitted for pre-approval, are examined post-award. The focus post-award remains on compliance with laws and regulations. In addition, a determination is made as to whether the award followed the guidelines set forth in the solicitation. For example: Did the lowest bidder get the award in

a sealed bid determination that appropriately considered alternates? Did the governing body approve and certify funding for the contract? Are the records submitted sufficient to justify the governing body's action? Is there any evidence of collusion or bid rigging?

To ensure that OSC's contract reviews result in better contracting processes in both the short and long terms, the Procurement Division consults directly with contracting units during and following reviews. Depending upon the nature of the review and any deficiency noted, the Procurement Division might hold an exit interview, prepare a written determination or simply provide oral advice to the contracting unit. In cases involving serious deficiencies, OSC may refer contracts for audit review or further civil or administrative action, such as actions to recover monies expended. Criminal activity is referred to appropriate law enforcement authorities.

The Procurement Division took on additional oversight responsibilities in FY 2013 as a result of Governor Chris Christie's Executive Order (EO) 125. Under that order, the division is required to review any and all state procurements that involve the expenditure of federal reconstruction resources connected to Superstorm Sandy. As a result, in FY 2013 the Procurement Division reviewed a variety of purchasing practices that otherwise would have been below OSC's statutory monetary threshold for review. The division reviewed proposed procurements subject to EO 125 on an immediate basis, providing guidance and feedback to agencies to ensure compliance with public contracting laws without sacrificing expediency in the state's recovery process. The division issued guidance to state agencies on

The division reviewed proposed procurements subject to EO 125 on an immediate basis, providing guidance and feedback to agencies to ensure compliance with public contracting laws without sacrificing expediency in the state's recovery process.

complying with EO 125, and proactively met with agencies to understand their unique procurement needs.

In FY 2013, the Procurement Division reviewed 120 contracts and purchases under EO 125. The total value of these procurements exceeded \$500,000,000. The division posts these contracts on OSC's Sandy transparency website. As a result of OSC's pre-screening, corrective actions were taken to modify 47 of those 120 contracts. Many of the changes involved clarifying the scope of work to be provided under the contracts to make the bidders' responsibilities more clear.

In all, the Procurement Division received notice of 614 public contracts for review in FY 2013. Among them were contracts involving the renovation of the Pulaski Skyway, the expansion of the Turtle Back Zoo and the management of the State Health Benefits Plan. Of those 614 proposed contracts, 145 of them were valued at more than \$10 million and were pre-screened pursuant to OSC's regular statutory authority. OSC attorneys took corrective action in 73 of those pre-screened contracts, assisting the public entity in ensuring the legality of its procurement process.

Among the most frequent errors OSC encountered was the use of specifications of a proprietary nature, such as specifications requiring bidders to provide particular brand name items without adequate reason and without permitting an opportunity to use an equivalent item. OSC also frequently required contracting entities to expand their advertisement of bidding opportunities.

An additional 349 contracts valued between \$2 million and \$10 million were submitted to OSC post-award. In these contracts, the Procurement Division found a 14 percent error rate in the contracts it reviewed. In each case, the division gave guidance to the contracting entity to ensure that the errors are not repeated.

The Procurement Division also has worked collaboratively with the Attorney General's Office, the state Division of Purchase and Property and the Office of Information Technology on a proactive effort to update the state's procurement methods and procedures, particularly regarding the purchase of software and IT services.

Investigative Reports and Guidance

The Procurement Division also periodically publishes investigative reports or guidance to public entities in order to highlight common deficiencies in the procuring of goods and services. For example, in FY 2013 the division published **an analysis of legal fees paid by local New Jersey governments**, which included a best practices guide for engaging and managing legal counsel.

In conducting its analysis, OSC reviewed three municipalities and two school districts and found that deficient procurement procedures, poorly drafted contracts and a general lack of oversight contributed to overbilling, increased legal costs and duplicative and unauthorized services being performed by legal counsel. For example, OSC found that two of the five local governments paid hourly attorney rates for routine clerical and administrative work that should have been free of charge under the attorney's contract. Another local government paid 30 different attorneys from the same law firm to provide legal services in a single year.

One township, North Bergen, paid an attorney a salary over a period of years and yet was unable to identify any services the attorney actually provided. After our staff requested additional information, the attorney in question resigned from his position. That case has been referred to the Division of Criminal Justice. The review also found that North Bergen's Township Attorney was the highest paid full-time municipal attorney in the state, earning between 35 percent and 124 percent more than the four largest New Jersey municipalities pay their highest paid staff counsel.

The legal billings report also included a best practices guide for municipalities to follow when contracting with outside counsel and managing their legal departments. The guide – which included an extensive checklist of practices for local governments to follow – was sent to every municipality and school district in the state. The state's Division of Local Government Services also has included those best practices on a checklist issued to local governments in order to assess their eligibility for state aid.

PROCUREMENT DIVISION - *BY THE NUMBERS*

120 - Sandy-related contracts pre-screened by OSC.

614 - Total public contracts screened or reviewed by OSC.

\$2 million - Typical monetary threshold for OSC contract review.

\$500 million - Value of Sandy-related contracts pre-screened by OSC.

POLICIES, PROCEDURES AND PUBLIC OUTREACH

Our efforts at OSC have included putting in place policies and procedures that guide our audit, investigative and related processes. The following are descriptions of some of the policies and procedures we have put into effect, which we have continued to refine over the past year.

Audit Manual

For professional audit organizations such as ours, it is essential that clearly defined policies be promulgated to provide audit guidance and to ensure the quality and consistency of the audit work performed. To that end, we developed an Audit Manual to serve as the authoritative compilation of the professional auditing practices, policies, standards and requirements for OSC staff. Our Audit Manual is a constantly evolving document that is revised as standards are amended and other changes in the auditing profession occur.

Audit Process Brochure

Open communication concerning the audit process lets the auditee know up front what to expect. With that in mind, OSC developed a brochure entitled “The Audit Process,” outlining the critical components of an audit from initiation to completion. This brochure is provided to the auditee prior to the start of an audit and also is posted on our website.

Risk/Priority Evaluation

OSC’s enabling legislation requires us to “establish objective criteria for undertaking performance and other reviews authorized by this act.” Accordingly, OSC developed a risk/priority evaluation matrix that

considers a number of risk factors, including the entity’s past performance, size of budget, whether the program is a new one, management turnover, indications of fraud or abuse, and referrals or recommendations from other government agencies. OSC staff conducts research along these parameters and assesses risk associated with each applicable factor as high, medium or low, resulting in a determination of audit priority.

Quality Control and Peer Review

Government auditing standards require audit organizations to establish an internal quality control system and to participate in an external quality control “peer review” program. The internal quality control system provides the organization with ongoing assurance that its policies, procedures and standards are adequate and are being followed. The external peer review, to be conducted once every three years, provides independent verification that the internal quality control system is in place and operating effectively and that the organization is conducting its work in accordance with appropriate standards.



OSC participated in its first peer review in June 2011. The review was a successful one. The external review team concluded that OSC’s system for quality control has been “suitably designed” and complied with government auditing standards.

Audit Coordination

OSC’s enabling legislation requires the State Comptroller to establish a system of coordination with other state entities responsible for conducting audits, investigations and similar reviews. This system serves to avoid duplication and fragmentation of efforts while optimizing the use of resources, promoting effective working relationships and avoiding the unnecessary expenditure of public funds. We continue to work closely with both state and federal audit and law enforcement officials in this regard.

Training

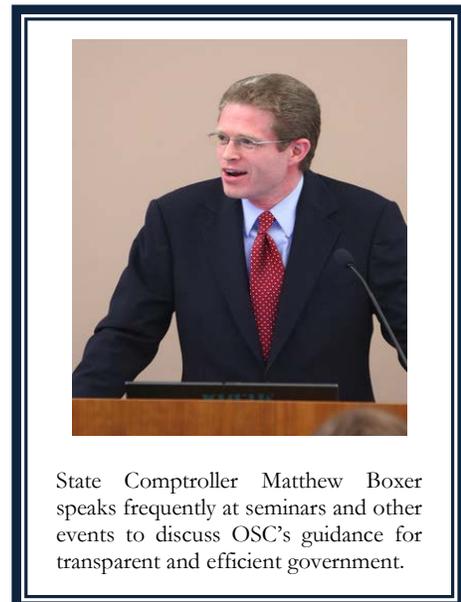
Audits conducted by OSC’s Audit Division comply with Generally Accepted Government Auditing Standards (GAGAS). Auditors performing work under GAGAS are required to maintain their professional competence through Continuing Professional Education (CPE). Specifically, every two years they must complete at least 80 hours of CPE, 24 of which must directly relate to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. OSC is recognized by the National Association of State Boards of Accountancy as a CPE sponsor. This year our staff received formal training on topics such as governmental accounting, audit sampling and documentation, and internal controls. All staff members in the Audit Division satisfied the biennial requirement of obtaining 80 CPEs over the reporting period.

Promulgating Regulations

OSC also has promulgated regulations to explain the organization and function of the office and the reporting requirements for government entities subject to the office’s oversight. For example, those rules provide auditees with an understanding of the audit process and explain what documents and information government entities must provide to the Procurement Division if they enter into contracts valued at \$2 million or more. The rules are aimed at providing government entities with a clear understanding of OSC’s mission and processes.

Public Outreach

OSC expanded its public outreach in FY 2013, sharing its reports and other news on Twitter and Facebook for the first time. The social media presence helped draw more public interest to the work of the office as the OSC website received more than one million visits in FY 2013, doubling its previous high.



Comptroller Boxer also continued to serve as a featured speaker before a wide range of organizations to discuss the lessons and best practices gleaned from various OSC audits and reports, provide information about OSC's policies and procedures, and seek input from the public. Those organizations included, for example, the League of Municipalities, the Citizens Campaign, the Center for Governmental Accounting Education and Research at Rutgers University, the Southern New Jersey Chamber of Commerce and municipal officers associations. These speaking engagements typically included extensive question and answer sessions that allow for feedback from the public and, in some cases, generated tips for the office to pursue.

In addition, Comptroller Boxer appeared this year as a guest on multiple television programs to discuss various OSC reports, including the national news show "On the Record with Greta Van Susteren." He also conducted interviews with virtually every major print and radio media outlet in the New Jersey region. This dialogue serves to provide information to the public about OSC's work while also acting as a deterrent to inappropriate conduct by public officials in New Jersey government.

**Top 10 Most Viewed State Comptroller Reports
on OSC's Website**

1. Audit - Selected Procurement and Financial Operating Practices at Middlesex County Improvement Authority
2. Investigative Report - Improper Participation by Professional Service Providers in the State Pension System
3. Audit - Improper Benefit Payments to Incarcerated Individuals
4. Report - A Programmatic Examination of Municipal Tax Abatements
5. Report - Cost Analysis of Selected Local Government Units Joining the State Health Benefits Plan
6. Report - An Analysis of Legal Fees Paid By New Jersey Local Governments
7. Report - Selected Fiscal and Operating Practices at New Jersey Shares, Inc.
8. Performance Audit - Financial Management Practices in Irvington Township
9. Audit - Selected Financial and Operating Practices at New Jersey Turnpike Authority
10. Investigative Report - Chesterfield Township Committeeman's Conflict of Interest Results in Improper Financial Gain

Office of the State Comptroller reports can be viewed in their entirety at www.nj.gov/comptroller.

Controller's Report Finds Legal Fees Out of Control in Local Governments

pressofAtlanticCity.com: Editorials

Turnpike Authority / Positive change

EDITORIALS

A BOUNTY OF BONUSES

STATE WATCHDOG: MIDDLESEX OFFICIALS GAVE THEMSELVES GENEROUS REWARDS



George Amick
CAPITOL TALK

Shining light on dark corners of government

N.J. elected official caught using power to cut land deal

ASSOCIATED PRESS



Everything Jersey

Let's hear it for one of New Jersey's most useful agencies, the Office of the State Comptroller under Matthew Boxer.

Editorial: N.J. Comptroller is strong choice for Sandy recovery money oversight

Hundreds Found to be Skirting N.J. Pension Law

N.J. state comptroller calls for vigilance in administration of workers' compensation claims



Audit finds ineligible people receive utility subsidies from NJ SHARES program

North Bergen officials paid attorney to do nothing, N.J. comptroller says in new report

The Times

Here for you  24 hours a day, 7 days a week

Behind bars, prisoners got \$24M in jobless benefits

Middlesex Improvement Authority brass paying themselves hefty bonuses, comptroller finds

Bloomberg

New Jersey Cities Abusing Pension Law May Waste Millions

N.J. Comptroller: Adult medical day care facilities overbilled state Medicaid program

N.J. urges stronger ethics laws after Chesterfield official's conflicts revealed

In PRISON but still getting PAID

Audit reveals inmates improperly received tens of millions of taxpayer dollars

By Ryan Hutchins / STAR-LEDGER STAFF

PRISONERS RECEIVED:

\$10,641,563

Unemployment insurance program

\$7,107,248

Medicaid

\$4,252,169

Supplemental Nutrition Assistance Program

\$1,245,456

Work First New Jersey

\$354,158

Public employee pensions

\$23,600,594

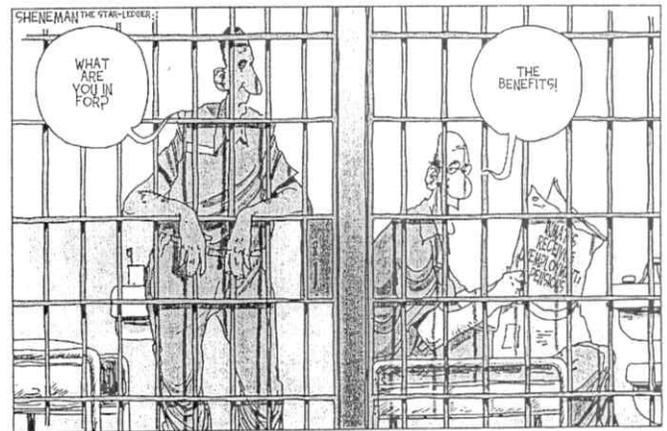
TOTAL

(Payments were made during 22 months ending April 30, 2011.)

Source: N.J. Office of the State Comptroller

Inmates with benefits

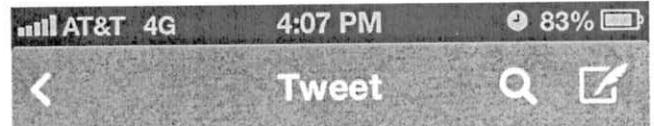
Draw: Sheneman/The Star-Ledger; By: Drew Sheneman/The Star-Ledger
on June 03, 2013 at 6:00 AM



New Jersey Inmates Improperly Received At Least \$23 Million

The New York Times

*New Jersey
Sent Checks
To Prisoners,
Report Shows*



Greta Van Susteren
@gretawire



According to a new report, NJ inmates have collected \$23 million in govt benefits...tweet me your thoughts on this & use #greta!

5/30/13, 10:23 PM

25 RETWEETS 8 FAVORITES

NJ prisoners received more than \$23 million in benefits