



State of New Jersey

DEPARTMENT OF LABOR
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JAMES E. MCGREEVEY
Governor

ALBERT G. KROLL
Commissioner

March 29, 2004

Michael T. Hill, Regional Inspector General for Audit
Office of Inspector General
U.S. Department of Labor
Philadelphia Regional Audit Office
Public Ledger Building, Suite 1072
150 S. Independence Mall West
Philadelphia, Pennsylvania 19106

Dear Mr. Hill:

We have received and reviewed the draft report entitled "Audit of ADP/IT Central Services Costs Charged to U.S. DOL Grants Administered by New Jersey's Department of Labor During July 1, 1996 Through June 30, 1999."

The attachment to this letter contains a detailed response to the three findings included in the report. This includes comments from the New Jersey Office of Information Technology (OIT) which is responsible for determining and billing costs to our department for centralized ADP services.

Our response indicates that the overcharges reported in your audit period have been offset in subsequent years by undercharges to the USDOL grants or adjustments to the schedules contained in your report.

Additionally, subsequent to your audit team's field visit, we have undertaken an extensive project to modernize the Unemployment Insurance System. This should provide you with new and relevant information as to your concerns expressed in Finding No. 3.

We appreciate the opportunity to respond and to assure that the audit process is complete and useful to all involved parties.

Sincerely,



COMMISSIONER

Attachment



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**OFFICE OF INSPECTOR GENERAL
AUDIT REPORT NO. 03-04-003-03-315
NEW JERSEY DEPARTMENT OF LABOR
RESPONSE TO FINDINGS**

Finding No. 1 (Draft Audit Report – Page 9)

ADP/IT Central Services Overcharges Totaling \$475,149 Were Not Credited to USDOL Grant Awards as Required by Federal Cost Principles.

NJDOL Response

We agree that the period involving fiscal years 1997 through 1999 resulted in a net overcharge to USDOL grants of \$475,149. As directed by your audit staff we have reviewed the subsequent years (2000 through 2003) and determined that USDOL grants were undercharged a total of \$858,481. This results in a net undercharge for fiscal years 1997 to 2003 of \$383,332. Given the complexities of the OIT billing process and the total charges involved, this net undercharge would not be considered a significant or material difference. We will, however, work with OIT to obtain even more accurate billings and reflect only appropriate charges in the USDOL grants. Any future overcharges will be offset or credited to the federal programs.

Finding No. 2 (Draft Audit Report – Page 13)

Deficiencies in the Approved CSCAPs Included Unallowable and/or Unsupported Interest and Depreciation Costs.

OIT Response

The New Jersey Office of Information Technology (OIT) has reviewed the finding by Tichenor & Associates, LLP, under contract to the U.S. Department of Labor (USDOL), Office of Inspector General (OIG) on central services automatic data processing and information technology (ADP/IT) costs charged to USDOL grants awarded to the State of New Jersey's Department of Labor (NJDOL) for State fiscal year (SFYs) 1997, 1998, and 1999 and have found the following:

The interest on USDOL's Exhibit E Interest Rate Comparison for Certificates of Participation on the HUB Building Lease-Purchase Agreement is incorrect. Exhibit E under the heading of Amount Per Amortization Schedule has been calculated incorrectly. The interest amount for six months was divided by three hundred and sixty five days and should have been divided by one hundred and eighty two and one half days. This calculation showed the wrong interest chargeable for the HUB building. The revised Exhibit E is based on the New Jersey Comprehensive Annual Financial Report (NJCAFR) that shows the interest payment on a cash basis in line with the Certificates of Participation, as shown below:

				Amount Per		
	Period			Amortization	Amount Per	
	Ending	Coupon	Interest	Schedule	CSCAP	Difference
SFY 1997						
	12/15/1996	6.90%	\$186,147.50	\$ 186,147.50		
	6/15/1997	6.95%	\$186,147.50	\$ 186,147.50		
Total				\$ 372,295.00	\$233,229.00	\$ (139,066.00)
SFY 1998						
	12/15/1997	6.95%	\$165,471.25	\$ 165,471.25		
	6/15/1998	7.00%	\$165,471.25	\$ 165,471.25		
Total				\$ 330,942.50	\$235,229.00	\$ (95,713.50)
SFY 1999						
	12/15/1998	7.00%	\$143,071.25	\$ 143,071.25		
	6/15/1999	7.00%	\$143,071.25	\$ 143,071.25		
Total				\$ 286,142.50	\$235,229.00	\$ (50,913.50)
Total Supported Interest Costs - SFYs 1997, 1998, and 1999						\$ (285,693.00)

The unsupported depreciation expense of \$1,098,594 on USDOL's Exhibit H is correct but is replaced by supported depreciation expense of \$763,896. The NJCAFR shows depreciation expense based on the State's Fixed Asset System. The total amount for the HUB Building on the fixed asset schedule is \$10,185,291 divided by 40 years, for a total of \$254,632 annual depreciation. For the three fiscal years audited the total amount is \$763,896.

Our calculation of the amount of allowable and unallowable interest and depreciation costs that OIT can include in CSCAP and bill to NJDOL during SFY's 1997 through 1999 is shown below.

Description	SFY 1997	SFY 1998	SFY 1999	Totals
Net Over/(Under) Recovery of Interest Costs	\$(139,066.00)	\$ (95,713.50)	\$ (50,913.50)	\$ (285,693.00)
Unsupported Depreciation Expense	\$ 366,198.00	\$ 366,198.00	\$ 366,198.00	\$1,098,594.00
Supported Depreciation Expense	\$(254,632.00)	\$(254,632.00)	\$(254,632.00)	\$ (763,896.00)
Total Unallowable HUB Building Expenses	\$ (27,500.00)	\$ 15,852.50	\$ 60,852.50	\$ 49,005.00
NJDOL's Share of Total OIT Billings (Exhibit F)	13.99%	13.80%	13.22%	
Total Unallowable Costs Charged to NJDOL	\$ (3,847.25)	\$ 2,187.65	\$ 8,018.26	\$ 6,358.66
Bureau of Labor Statistics (BLS)				\$ 91
Employment Service				\$ 703
Veterans Employment and Training Service (VETS)				\$ 5
Unemployment Insurance				\$ 3,914
OSHA				\$ 0
Total				\$ 4,712

After we determined that \$6,359 of unallowable HUB Building interest and depreciation costs charged to NJDOL during the three-year period covered by the audit, we calculated that \$4,712 of this amount had been charged/allocated to USDOL programs (e.g., BLS, ES, UI, and VETS). The amount of unallowable interest and depreciation costs charged to each USDOL program was based on the percentage of OIT costs charged to each program to the total OIT billings to NJDOL on USDOL's Exhibits G and H.

Finding No. 3 (Draft Audit Report – Page 16)

USDOL Needs to Monitor the Utilization and Costs of ADP/IT Central Services Charged to Grants Awarded to NJDOL.

NJDOL Response

As outlined in Finding 3 of the report, NJDOL was subject to increased OIT billing rates in SFY 2000 due to decreased usage of OIT's ADP/IT central services by a number of State agencies whose programs were moved from OIT's central services "Enterprise Service" (mainframe) computing environment to new "client server" computing environments.

NJDOL concurs with Finding 3, recommending that the State conduct a feasibility study to determine the most efficient, effective, and economical computing platform for meeting the