NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY
(A Component Unit of the State of New Jersey)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2011

NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY
(A Component Unit of the State of New Jersey)

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MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Members of the
New Jersey Health Care Facilities Financing Authority

We have audited the accompanying schedule of expenditures of federal awards (the "Schedule") of the New Jersey Health Care Facilities Financing Authority, a component unit of the State of New Jersey, (the "Authority") for the year ended December 31, 2011. This Schedule is the responsibility of the Authority's management. Our responsibility is to express an opinion on this Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the expenditures of federal awards of the Authority, as described above, for the year ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of the Authority's management, audit committee, and the U.S. Department of Health and Human Services and is not intended to be and should not be used by anyone other than these specified parties.

Mercadien, P.C.
Certified Public Accountants

March 27, 2012

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Members of the
New Jersey Health Care Facilities Financing Authority

Compliance

We have audited the compliance of the New Jersey Health Care Facilities Financing Authority, a component unit of the State of New Jersey, (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended December 31, 2011. The Authority's major federal program is identified in the "Summary of Auditors' Results" section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as items 2011-01 and 2011-02.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)

Internal Control Over Compliance (Continued)

have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Authority's internal control over compliance.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-01 and 2011-02. 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.

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's response and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of Authority's management, audit committee, and the U.S. Department of Health and Human Services, and is not intended to be and should not be used by anyone other than these specified parties.

Mercadien, P.C.
Certified Public Accountants
March 27, 2012

NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY
(A Component Unit of the State of New Jersey)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2011

Federal Grantor	Federal CFDA Number	Award Amount	Grant Period	Federal Expenditures
* Department of Health and Human Services Office of the Secretary of HHS ARRA - State Grants to Promote Health Information Technology	93.719	$11,408,594	3/15/2010 - 3/14/2014	$3,222,357

* Denotes Major Program.

NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY
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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes federal grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Significant Account Policy

Revenue from the federal grant is recognized when it becomes both measurable and available. Expenditures of the federal grant are recognized in the accounting period when the liability is incurred for expenditures/expenses funded through the federal grant.

Note 3. Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, the Authority provided federal grants to subrecipients as follows:

Subrecipient	Federal CFDA Number	Amount Provided
Health-E-Citi-NJ	93.719	$1,754,560
Jersey Health Connect	93.719	881,567
HIT Coordinator-State of New Jersey	93.719	508,585
Camden HIE	93.719	77,645

NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

· Material weaknesses identified?	____ yes	X no
· Significant deficiencies identified that are not considered to be material weaknesses?	____ yes	X none reported
Noncompliance material to financial statements noted?	____ yes	X no

Federal Awards

Internal control over major programs:

· Material weaknesses identified?	____ yes	X no
· Significant deficiencies identified that are not considered to be material weaknesses?	X yes	____ none reported

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	X yes	____ no

Identification of major programs:

Federal CFDA Number	*Federal Grantor*
93.719	ARRA-State Grants to Promote Health Information Technology

Dollar threshold used to distinguish between type A and type B programs:	$ 300,000	
Auditee qualified as low-risk auditee?	____ yes	X no

Section II – Financial Statement Findings

None

NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

Finding 2011-01

Criteria
The recipient share of expenditures is to be reported on the Federal Financial Report ("FFR").

Condition
The Authority's September 30, 2011, FFR annual report did not include the total recipient share expended for the period ended September 30, 2011.

Cause:
The recipient share of expenditures reported was incomplete at the time of filing the September 30, 2011, FFR.

Effect:
The total recipient share expended for the period ended September 30, 2011, was not accurately reported on the FFR.

Recommendation:
We recommend that the Authority examine the oversight, review and communication components of the reporting process to ensure that all federal expenditures and the recipient share of expenditures are received and reviewed timely in order to be accurately reported on the FFR.

View of Responsible Officials and Planned Corrective Actions

We agree oversight was incomplete for the September 30, 2011 FFR report which was the first time this information was required to be reported. At that time, the HIT Project Manager was still putting together procedures to ensure recipient share expenditures were collected, allowable and reported. Since then the Authority has evaluated what is needed to report this information accurately and in a timely manner. Those procedures include all HIE's providing the HIT Project Manager at the close of each quarter with all allowable expenditures along with supporting information for the period. Expenditures are then reviewed and approved by the HIT Project Manager and the Director or Assistant Director Research, Investor Relations and Compliance. Each quarter's expenditures will be combined and reported in the FFR report.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

Finding 2011-02

Criteria

At the time of the award, the Authority is required to identify to the subrecipient the federal award information *(e.g., CFDA title and number, award name, name of federal agency)* and applicable compliance requirements.

Condition
The Authority did not communicate the federal award CFDA title and number to the subrecipients.

Cause
The Authority did not establish procedures within their award documentation to properly communicate the CFDA title and number.

Effect
The subrecipient may not be aware of the related grant that it is working on as well as the proper compliance requirements associated with the grant program and properly include the expenditures of the federal program on its OMB Circular A-133 audit, if required.

Recommendation
We recommend that the Authority establish procedures to properly communicate the required federal award information to the subrecipient at the time of the award and at the disbursement of ARRA funds.

View of Responsible Officials and Planned Corrective Actions

We agree the CFDA title and number was not given to sub-recipients at the time of the award, however; it should be noted, we did communicate this to all HIE's in enough time for them to prepare for their Single Audit. To correct this going forward, we will include the CFDA title and number on a sub-recipients contract and communicate the importance of understanding the compliance requirements of the CFDA number.