

**INDEPENDENT ACCOUNTANT'S REPORT ON THE
NEW JERSEY DEPARTMENT OF ENVIRONMENTAL PROTECTION (NJDEP)
SITE REMEDIATION PROGRAM
INDIRECT EXPENSE RATE FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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To the Management of
NJDEP, Division of Remediation

ATTENTION:

Mr. Frank Pinto
Chief, Bureau of Contract and Fund Management
Division of Remediation Support, NJDEP
Trenton, NJ 08625-0413

We have performed a review of the Fiscal Year 2006 NJDEP, Site Remediation Program Indirect Expense Rate and have issued our report thereon dated October 11, 2007. The indirect expense rate is to be used in computing NJDEP costs of providing oversight of remedial activities. These costs may be billed to users of NJDEP services. The elements included in the rate are detailed in the enclosed Exhibits. All information included in the FY2006 Indirect Rate Exhibits A through E is the representation of NJDEP management.

We performed our review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants, and the principles contained in the United States Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments". A review consists principally of inquiries of an organization's personnel and analytical procedures applied to financial data. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the FY2006 Indirect Rate Statements taken as a whole and, accordingly, no such opinion is expressed. We are not aware of any material modifications that should be made to the FY2006 Indirect Rate Statements in order for them to be in conformity with Generally Accepted Governmental Accounting Standards or the principles of OMB Circular A-87.

The purpose of the review was to assemble appropriate data from historical accounting records, inquire of NJDEP personnel regarding specific accounting procedures, and perform limited analytical procedures to generate FY2006 Indirect Expense Statements for NJDEP management.

This report is intended solely for the use and information of NJDEP management, and should not be used for any other purpose.

This report refers only to the indirect cost statement referred to above and does not extend to the financial statements of NJDEP or any other organization dealing with NJDEP taken as a whole for any date or period.

Leonard G. Birnbaum and Company, LLP
Certified Public Accountants

October 11, 2007

**NEW JERSEY DEPARTMENT OF ENVIRONMENTAL PROTECTION
SITE REMEDIATION PROGRAM
INDIRECT EXPENSE RATE FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

INDEX

<u>Description</u>	<u>Exhibit</u>
FY2006 Site Remediation Program Indirect Rate	A
FY2006 Total Expenses – Before Grant/Fee Reimbursement	B
Computation of FY2006 Indirect Labor	C
FY2006 Adjustments for Grant/Fee Reimbursements	D
Example of Rate Application: Additive, Fringe Benefit And Indirect Rates	E

**NEW JERSEY DEPARTMENT OF ENVIRONMENTAL PROTECTION
SITE REMEDIATION PROGRAM
INDIRECT EXPENSE RATE FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Total Allowable <u>Costs</u>	Grant/Fee Reimbursement <u>Adjustments</u>	Adjusted <u>Costs</u>
Direct Salaries & Wages	\$ 16,300,370.82	<u>(3,445,582.72)</u>	\$ 12,854,788.10
Overhead:			
Indirect Salaries & Wages (Note 1)	\$ 13,970,106.78	\$ (3,924,567.28)	\$ 10,045,539.50
Fringe Benefits @ 32.75% (Note 2)	<u>4,575,209.97</u>	<u>(1,285,295.93)</u>	<u>3,289,914.04</u>
Total Indirect Salaries & Wages plus Fringes	\$ 18,545,316.75	\$ (5,209,863.21)	\$ 13,335,453.54
Other Overhead Costs (Note 3)	<u>13,680,304.34</u>	<u>(6,051,407.08)</u>	<u>7,628,897.26</u>
Total Overhead Costs	<u>\$ 32,225,621.09</u>	<u>\$ (11,261,270.29)</u>	<u>\$ 20,964,350.80</u>

Site Remediation Program Indirect Rate	<u>163.09%</u>
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Notes:

1. The "Salary Additive" for indirect employees is included in the adjusted Indirect Salaries and Wages figure of \$13,970,106.78. Exhibit D shows the computation of the "Grant/Fee Reimbursement Adjustments".
2. In order to recover the fringe benefit costs incurred for indirect labor, the applicable indirect fringe benefit costs are included in the overhead cost pool.
3. The "Other Overhead Costs" shown in the "Total Allowable Costs" column was computed by subtracting the "Indirect Salaries & Wages" of \$13,970,106.78 from the total "Adjusted Expenses" on Exhibit B of \$27,650,411.12.

See Independent Accountant's Review Report

**NEW JERSEY DEPARTMENT OF ENVIRONMENTAL PROTECTION
SITE REMEDIATION PROGRAM
FY2006 TOTAL EXPENSES - BEFORE GRANT/FEE REIMBURSEMENT (Note 1)**

Object Code	Description	Expenses	Adjustment	Adjusted Expenses	Note
1210 & 1610	Direct Salaries & Wages	\$ 16,453,195.66	\$ (152,824.84)	\$ 16,300,370.82	2 & 4
1210 & 1610	Indirect Salaries & Wages	\$ 18,951,734.94	\$ (4,981,628.16)	\$ 13,970,106.78	3
	Overtime Premium		152,824.84	152,824.84	4
2110	Office Exam Notary Supplies	57,850.33		57,850.33	
2112	Data Processing Supplies	10,948.31		10,948.31	
2120	Printing	13,983.38		13,983.38	
2121	State Print Shop Charges	7,823.39		7,823.39	
2140	Copy Equipment Rentals	59,147.65		59,147.65	
2150	Reference Books	879.58		879.58	
2210	Vehicular Gasoline/Fuels	492.60		492.60	
2310	Medical	50.00		50.00	
2410	Household/Security	6,786.12		6,786.12	
2420	Clothing	4,655.05		4,655.05	
2610	Other Materials & Supplies	69,197.12		69,197.12	
3010	Travel State Business	11,299.64		11,299.64	
3020	Conferences Conventions	5,994.37		5,994.37	
3030	Mileage - State Business	618.76		618.76	
3060	Travel Training	198.00		198.00	
3110	Telephone	366,656.16		366,656.16	
3210	Postage	89,000.00		89,000.00	
3410 & 3910	Information Systems	275,192.10		275,192.10	
3430	Software	29,454.19		29,454.19	
3450	Computer Equip. Maintenance	10,000.00		10,000.00	
3610	Consultant Professional Service	315,163.75		315,163.75	
3620	Technical Service Mandatory	12,690.71		12,690.71	
3621	Medical Doctors/Nurses	16,801.00		16,801.00	
3623	Court Reporters	52,462.88		52,462.88	
3624	Temporary Personnel	203,805.58		203,805.58	
3630	Legal Services	4,564.82		4,564.82	
3810	Staff Training	2,660.49		2,660.49	
3820	Subscriptions	13,396.75		13,396.75	
3830	Memberships	7,203.00		7,203.00	
3850	Official Receptions	220.00		220.00	
3856	Prompt Payment Interest	3,910.08	(3,910.08)	-	5
3890	Miscellaneous Services	176,555.14		176,555.14	
3891	Legal Services/Deputy Attorney General	731,962.00		731,962.00	6
3892	Administrative Law Services	7,092.63		7,092.63	
4010	Maintenance Buildings/Grounds	5,562.60		5,562.60	
4110	Maintenance Equipment	71,522.57		71,522.57	
4210	Maintenance Vehicles	34,880.50		34,880.50	
4510	Rent - Central Motor Pool	365,542.93		365,542.93	
4710	Rent - Other	60,994.82		60,994.82	
5815	Departmental Indirect Costs	10,015,112.77		10,015,112.77	7
7410	Vehicular Equipment - <u>Use Charge</u>	229,235.31		229,235.31	8
7610	Other Equipment	135,511.28		135,511.28	
7611	Office Furniture	11,544.56		11,544.56	
7612	Office Machines	439.05		439.05	
7710	EDP Equipment - <u>Use Charge</u>	32,327.61	-	32,327.61	8
		<u>\$ 32,483,124.52</u>	<u>\$ (4,832,713.40)</u>	<u>\$ 27,650,411.12</u>	

Intermediate Indirect Rate Before Reimbursements from Grants/Fees 169.63%

See Independent Accountant's Review Report

NEW JERSEY DEPARTMENT OF ENVIRONMENTAL PROTECTION
SITE REMEDIATION PROGRAM
FY2006 TOTAL EXPENSES - BEFORE GRANT/FEE REIMBURSEMENT
NOTES TO EXHIBIT B

1. It should be noted that this Exhibit does not include fringe benefits associated with indirect labor are captured in Exhibit A. The direct labor fringe benefits are captured when remediation services are billed as shown in the Exhibit E example.
2. Direct Salaries and Wages are computed by subtracting from total Salaries and Wages the amounts charged to indirect activities on employee timesheets.
3. Indirect Salaries and Wages, Exhibit C, are based on employee timesheet charges to activities that could not be associated with a single, final cost objective. Two adjustments were made:
First, remove the salary additive related to Direct Labor because it is a separate cost rate. The salary additive is for authorized employee absences from the job (vacation, holiday, etc.) that is a calculated rate applied to base salaries. The FY2006 factor is 23%. \$ 3,076,747.59
Second, remove certain management salaries that are included in the Departmental Indirect Cost Rate. 1,904,880.57
- Total Adjustment \$ 4,981,628.16
4. The premium portion of overtime, \$152,824.84, is transferred from direct labor to overhead cost due to the fact that the premium portion of overtime cost usually cannot be identified to the project causing the overtime (i.e., the project that actually caused the overtime may not be the project where the overtime cost was incurred). Therefore, the extra cost of the overtime is charged to overhead and shared by all projects.
5. Interest payments are unallowable per OMB Circular A-87, Attachment B.23.
6. Legal expenses have been reduced 75% to recognize the actual amount of DAG legal costs that can be recovered through the legal expense billing process. The direct legal costs are included in the direct labor for the computation of the indirect expense rate.
7. Departmental Indirect Costs are computed by multiplying the total cost of NJDEP employees time, less authorized absences such as vacation and sick time, by the EPA approved department-wide rate of 26.21%. The rate includes costs from the Statewide Cost Allocation Plan plus NJDEP costs for management and administration groups above the Bureau level (except Bureau groups that are 100% indirect). See adjustment in Note 3 above.
8. This amount, in accordance with OMB Circular A-87, Attachment B.11f, is a use charge of 6.67% of acquisition cost on equipment used during FY2006.

See Independent Accountant's Review Report

**NEW JERSEY DEPARTMENT OF ENVIRONMENTAL PROTECTION
SITE REMEDIATION PROGRAM
COMPUTATION OF INDIRECT LABOR FROM EMPLOYEE TIMESHEETS**

<u>Job Number</u>	<u>Description</u>	<u>Amount</u>
0000010	Vacation	\$ 2,673,039.01
0000020	Administrative Leave	398,685.85
0000030	Comp Time Used	51,300.65
0000040	Sick Time	1,636,660.35
0000050	Holiday Time	1,606,079.49
0000051	New Year's Day	545.13
0000052	Christmas Day	124,675.19
0000060	Emergency or Early Closing	370,989.26
0000070	Jury Duty	15,358.10
0000080	Leave with Pay	127,598.54
0000100	Convention	322.32
0000110	Sick Leave - Injury	15,223.72
0000120	Military Leave with Pay	10,353.42
0000160	Lost Time-First Day of Injury	414.85
0000170	Conferences and Seminars	1,004.82
0000190	Union Business	5,154.58
0000230	Leave with Pay in Lieu of Working Holiday	1,700.50
0000250	Clerical	42,436.43
0000260	Regular Supplemental	21,833.38
0000290	Clothing Maintenance Allowance	8,437.50
0000300	Retroactive Adjustment Supplemental	18,448.68
0000340	Bonus or Longevity Payments	17,526.01
0000400	Shift Differential Payments	4,156.31
0000430	Dr Visits/Therapy	4,948.37
30790000	Environmental Claims Administration	208,384.25
32400000	Volunteer Management	945.94
32570000	Information Resource Management (IRM)	280,769.11
32950000	Publicly Funded Site Remediation - Administration	2,621,868.35
33000000	Responsible Party Site Remediation - Administration	5,675,275.49
33080000	Spill Fund Administration	2,039.65
33350000	Water Supply Program - General	27,619.05
33490000	Emergency Response Program-General	449,049.01
33500000	Site Remediation Program	2,318,593.00
99999999	Default Job Number - Suspense Account	3,363.20
	Miscellaneous	59,863.43
	Salary Payments without Time Coding	147,072.00
	Total FY2006 Indirect Labor	<u>\$ 18,951,734.94</u>

See Independent Accountant's Review Report

**NEW JERSEY DEPARTMENT OF ENVIRONMENTAL PROTECTION
SITE REMEDIATION PROGRAM
INDIRECT EXPENSE RATE FOR THE FISCAL YEAR ENDED JUNE 30, 2006
ADJUSTMENTS FOR GRANT/FEE REIMBURSEMENTS**

Objective	Funding Source	Grant/Fee Funding (A) (Note 1)	Actual Salaries & Wages Charged (B) (Note 2)	Computation of Adjustment Amounts					
				Base Salaries (Direct Labor) at 46.47% (C)=(B) X .4647 (Note 3)	Fringe Benefits on Base Salaries at 32.75% (D)=(B) X .3275 (Note 4)	Indirect Labor (E)=(B)-(C)	Fringe on Indirect Salaries & Wages (F)=(E) X .3275 (Note 5)	Allocable Indirect Costs 169.63% (G)=(C) X 1.6963 (Note 6)	Total Recognized Reimbursement (H) (Note 6)
UST Trust	Federal: 4815-203-275500 4815-362	\$ 1,214,000.00	\$ 672,035.00	\$ 312,294.66	\$ 102,276.50	\$ 359,740.34	\$ 117,814.96	\$ 529,745.43	\$ 1,421,871.89
UST Notification	Federal: 4815-203-277050/363 Reimburse to 4815-101-270090	196,000.00	117,000.00	54,369.90	17,806.14	62,630.10	20,511.36	92,227.66	247,545.16
RCRA	Federal: 4815-203-230010/330 Reimburse to 4815-105	311,000.00	185,000.00	85,969.50	28,155.01	99,030.50	32,432.49	145,830.06	391,417.56
Superfund Core	Federal: 4815-203-191110/310 Reimb to 4815-101-270090/122	450,000.00	248,000.00	115,245.60	37,742.93	132,754.40	43,477.07	195,491.11	524,711.11
Reimb. To HDSCF	DoD Federal: 4815-101-270090 4815-122	250,000.00	149,000.00	69,240.30	22,676.20	79,759.70	26,121.30	117,452.32	315,249.82
Brownfields	Federal: 4815-203-270060	400,000.00	238,000.00	110,598.60	36,221.04	127,401.40	41,723.96	187,608.41	503,553.41
PA/SI	Federal: 4815-203-270020 4815-406	1,000,000.00	374,962.00	174,244.84	57,065.19	200,717.16	65,734.87	502,237.94	1,000,000.00
UST State Account	Self-Funding through Fees - (Account 427)	1,000,000.00	694,790.00	322,868.91	105,739.57	371,921.09	121,804.16	547,682.53	1,470,016.26
ISRA (Note 7)	Self-Funding through Fees - (Mingled with Other Accounts)	800,000.00	448,464.00	229,075.41	75,022.20	219,388.59	71,849.76	388,580.62	983,916.58
Corporate Business Tax	Taxes - Account 434 (Note 8)	8,977,000.00	-	1,971,675.00	645,724.00	2,271,224.00	743,826.00	3,344,551.00	8,977,000.00
Totals		\$ 14,598,000.00	\$ 3,127,251.00	\$ 3,445,582.72	\$ 1,128,428.78	\$ 3,924,567.28	\$ 1,285,295.93	\$ 6,051,407.08	\$ 15,835,281.79

Notes:

- Funding figures are from the FY2006 Budget Planning File dated October 26, 2005.
- The source for the "Actual Salaries and Wages Charged" figures is the FY06 Spending Plan Reports. These figures include the "salary additive" which is a 23% factor applied to base direct labor dollars to account for authorized employee absences from the job (vacation, holiday, etc.). Note that the "Salary Additive" is not deducted from overhead expenses on Exhibit A because the amount for direct labor salary additive is not included in overhead costs. Direct labor salary additive is a separate rate applied to base direct labor dollars.
- Based on NJDEP FY2006 timesheet charges, direct labor on specific projects is 46.47% of total Salaries and Wages.
- The Fringe Benefit rate of 32.75% is the rate negotiated and approved by the US Department of Health and Human Services. Note that the "Fringe Benefits on Base Salaries" is not deducted on Exhibit A from overhead expenses because the amount for direct labor fringe benefits is not included in overhead costs. Direct labor fringe benefits is a separate rate applied to "Total Salaries and Wages".
- To complete the reimbursement deduction the fringe on indirect salaries must be separately calculated because fringe benefits were not included in the calculation of the "Intermediate Indirect Rate Before Reimbursements from Grants/Fees", Exhibit B. Note that "Fringe on Indirect Salaries & Wages" is included in the overhead rate computation in Exhibit A and is therefore a deduction from overhead expenses.
- The allocable indirect cost rate is an intermediate rate computed to determine the actual cost of work funded by each grant or fee program. Although each grant or fee program may not cover all indirect costs, each grant should be charged it's appropriate share of indirect costs. Note that this column shows either the actual amount of indirect costs if funding is less than actual costs, or the balance of funding after direct labor and all fringe benefits are deducted. If column (H) equals column (A) grant funding was sufficient to cover all allocable costs.
- Since ISRA costs were commingled with other accounts during FY2006, the ratios experienced by the "UST State Account" were used to compute a reasonable distribution of funding into the appropriate cost categories.
- Although the Corporate Business Tax is not a Grant or Fee Program we have included it on this exhibit to recognize taxes collected for the operation of the Department. These taxes may only be used to fund direct expenses. However, to compute an equitable indirect expense rate we allocated this reimbursement among all cost categories based on FY2006 experience. This approach results in an indirect expense rate which reflects the true cost of providing site remediation services. Deducting the full amount from direct labor would have incorrectly significantly increased the indirect expense rate.

Abbreviations:

HDSCF = Hazardous Discharge Site Cleanup Fund ISRA = Industrial Site Recovery Act PA/SI = Preliminary Assessment/Site Investigation
RCRA = Resource Conservation and Recovery Act UST = Underground Storage Tank

See Independent Accountant's Review Report

**NEW JERSEY DEPARTMENT OF ENVIRONMENTAL PROTECTION
SITE REMEDIATION PROGRAM
EXAMPLE OF RATE APPLICATION: ADDITIVE, FRINGE BENEFIT AND INDIRECT RATES**

Fiscal Year	SALARY COSTS (A)							INDIRECT COSTS (B)			Subtotal A+B
	Base Salaries	Additive Rate	Additive Amount	Additive Subtotal	Fringe Rate %	Fringe Amount	Subtotal A	Base Salaries	Indirect Rate %	Subtotal B	
2006	\$ 1,500.00	23.00%	\$ 345.00	\$ 1,845.00	32.75%	\$ 604.24	\$ 2,449.24	\$ 1,500.00	163.09%	\$ 2,446.35	\$ 4,895.59

See Independent Accountant's Review Report