



**New Jersey State Legislature
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Office of the State Auditor**

Kean University

July 1, 2015 to December 31, 2016

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State Auditor**

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Enclosed is our report on the audit of Kean University for the period of July 1, 2015 to December 31, 2016. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells
State Auditor
October 12, 2017

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Scope

We have completed an audit of Kean University (university) for the period July 1, 2015 to December 31, 2016. Our audit included the university's operating expenditures and the expenditures of Kean University Foundation, Inc. (foundation), a component unit of the university. N.J.S.A. 52:24-4 entitles the State Auditor to prompt access to all university records needed for the conduct of the audit. Our scope was limited for the foundation since the university did not provide us electronic access to the foundation's accounting system as formally requested. We focused primarily on procurement, payroll, and student charges such as room and board, meal plans, and mandatory fees. We did not audit construction expenditures. As stated in the university's financial statements, operating expenditures were \$215 million in fiscal year 2016. During our audit period, annual enrollment was 14,000 students and the university employed 1,100 full-time individuals.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the university's programs, were reasonable, and were recorded properly in the accounting systems. A further objective was to determine if employees were completing outside activity questionnaires. This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In preparation for our testing, we studied legislation, board minutes, the administrative code, and policies of the university. Provisions we considered significant were documented, and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We also read reports of other auditors, reviewed financial trends, and interviewed university personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions on our audit objectives as well as internal controls and compliance. Sample populations were sorted and transactions were judgmentally and randomly selected for testing.

Conclusions

We found the financial transactions included in our testing were related to the university's programs, were reasonable, and were recorded properly in the accounting systems. In making these determinations, we noted certain internal control weaknesses over procurement and matters of compliance relating to the university's outside activity questionnaires and to the foundation's issuance of Internal Revenue Service Form 1099s to university employees which merit management attention. We also made an observation regarding the accountability of student mandatory fees.

Background

The university is New Jersey's fourth-largest traditional public institution of higher education, with its main campus located in Union County, New Jersey and a branch campus located in Ocean County, New Jersey. The government, control, conduct, management, and administration of the university is vested, by law, with the board of trustees. The New Jersey State Legislature appropriates funds annually to support university operations. The university entered into an agreement with Wenzhou University in China and signed a cooperation agreement for the establishment and operation of Wenzhou-Kean University (WKU), a jointly governed organization. WKU graduated its first class in May 2016. The university is reimbursed for educational staffing expenses and business related travel expenses from WKU.

Procurement and Receiving

There are internal control weaknesses in the purchasing, receiving, and recording processes.

Credit Card Transactions

During fiscal year 2016, the university expended \$732,000 in credit card transactions from 11 authorized credit card users. We judgmentally selected the June 2016 credit card statement and we tested 106 credit card transactions totaling \$95,200 and found the following.

- Eighteen transactions totaling \$4,200 did not have adequate supporting documentation.
- Twenty-three transactions totaling \$61,000 were classified incorrectly in the accounting system's expenditure accounts. Of these transactions, five totaling \$7,300 were not billed for proper reimbursement from Wenzhou-Kean University (WKU). In November 2016, the university began using a separate credit card earmarked for WKU reimbursements.

Vendor Quotes

As a best practice, in order to minimize operational cost, the university should solicit price competition from vendors for the purchase of goods and services. To determine the adequacy of the university's price competition guidelines, we compared its procurement requirements to other New Jersey public universities for those purchases below the \$33,000 public bidding threshold required by N.J.S.A. 18A:64-54. We found that the university's competition requirements are not adequate. For example, eight universities require a minimum of three price quotes from vendors for purchases that are more than \$6,000 while the university only requires one price quote for purchases between \$500 and \$33,000. During fiscal year 2016, the university purchased approximately \$8.3 million in goods and services from more than 1,200 vendors that met its one price quote requirement. Overall, requiring only one price quote does not validate whether price competition and best pricing was achieved.

Expired Contracts

We reviewed fiscal year 2016 expenditures to vendors that exceeded the \$33,000 annual bidding threshold. From a population of 86 direct-purchase vendors, 2 of 20 judgmentally selected vendors had expired contracts. These two vendors were paid \$741,000 and \$317,000, for campus security services and student athletic apparel, respectively. Expired contracts were also cited in a university purchasing department assessment report.

Confirming Orders

A confirming order is the ordering of goods or services before an authorized purchase order is approved, thus bypassing the university's procurement process. Our random sample of 52 expenditure transaction line items during fiscal year 2016 discovered five confirming orders. Two of these orders were for \$68,000 and \$4,600, while the remaining three were each under \$1,000.

Central Receiving

The university's Central Receiving unit receives goods from vendors, and tracks and delivers the items to the requestor as indicated on the purchase order. The vendor submits a packing slip (an independent documentation) to the Central Receiving unit whereby the delivered goods are matched to the purchase order. In addition, the Central Receiving unit electronically records the receipt of goods into its inventory system. As a prerequisite for payment, the accounts payable unit of the General Accounting Department relies solely on the system approval of the requestor's acknowledgement of received items, rather than from the independent records from the Central Receiving unit. Although the requestor's approval of receipt is a supplement to internal control, the accounts payable unit should also verify packing slips and/or the central receiving inventory system before making payments; otherwise the requesting unit is also authorizing payment without independent documentation of receipt.

Catering Services

The university paid 1,700 invoices totaling \$1.7 million for catering services from July 2015 to December 2016. Generally, the online catering orders are funded by blanket purchase orders that are utilized by various departments. Our judgmental sample of 36 catering invoices totaling \$32,000 revealed that 29 invoices (80 percent) paid by the accounts payable unit did not have confirmation of the deliveries.

Recommendation

We recommend the university make the following changes to strengthen procurement and expenditure controls.

- Ensure credit card transactions have adequate supporting documentation and are properly classified in the accounting system. The university should seek the unbilled \$7,300 expenditure reimbursements from WKU.
- Ensure price competition by requiring a minimum of three quotes for certain purchasing thresholds comparable to other state universities.
- Do not utilize expired contracts to purchase goods and services.

- Avoid the use of confirming orders.
- Require the accounts payable unit to verify appropriate receiving documentation from the Central Receiving unit and vendors, as well as obtain confirmation of catered deliveries prior to disbursement.



Outside Activity Questionnaire

Employees should complete the Outside Activity Questionnaire timely.

In accordance with N.J.A.C.19:61-5.9 (c), “Every State employee and officer shall, however, at a minimum complete and file a new Outside Activity Questionnaire with his or her agency's Ethics Liaison Officer every three years, and whenever there is a change in the employee or officer's outside activity or State employment”. In November 2015, the Office of University Counsel took over the ethics responsibility from Human Resources. In early October 2016, emails were sent to all faculty and staff concerning the importance of Outside Activity Questionnaires (OAQ). As of February 2017, based on the university's database, excluding adjunct staff, we found only 495 employees out of 1,485 (33 percent) filed the OAQ with the university's Ethics Liaison Officer. We noted a five percent improvement in completed OAQs from December 2016.

Recommendation

We recommend the university implement a process to improve its compliance rate over completed OAQs.



Kean University Foundation, Inc.

The foundation erroneously classified university employee wages as independent contractor compensation.

The foundation utilizes university employees for its staffing and subsequently reimburses the university for these payroll expenses. The foundation issued Internal Revenue Service (IRS) Form 1099 (independent contractor) to 74 recipients totaling \$462,000 for 2015 and 89 recipients totaling \$521,000 for 2016. In our review of all IRS Form 1099s issued in 2015 and 2016, we noted \$61,000 of payments to 4 university employees. Contrary to IRS regulations, these payments for performance incentives, bonuses, and car/housing allowances were reported as independent contractor compensation on the IRS Form 1099 and not as employee wages on the IRS Form W-2. The foundation may be obligated for additional payroll taxes for not reporting these payments as employee-related wages.

Recommendation

We recommend the university inform the foundation to follow IRS regulations on the issuance of IRS Form 1099 and Form W-2.

**Observation****Student Mandatory Fees**

In fiscal year 2016, mandatory student fees were approximately \$48 million (31 percent) of the combined tuition and mandatory fees of \$156 million. The State of New Jersey provides annual appropriations to offset tuition and mandatory fees. As stated in the New Jersey Office of the State Comptroller's (OSC) report, "Controls over Collection, Allocation and Use of Student Fees at Selected New Jersey Colleges and Universities", dated April 27, 2016, the university continued to have no written policies and procedures over the assessment and/or calculation of its mandatory student fees. When we asked the university management for detailed written policies and procedure over the assessment and/or calculation of its student mandatory fees, we were provided with a general budget procedures manual and website link to the Board of Trustees bylaws which we deemed inadequate because they lacked sufficient detail. The university does not annually prepare its "Kean University Analysis of Student Fees vs. Expenses Selected Fee Categories" report, which is an essential tool of its annual budgetary process when accounting for mandatory student fees. University management stated this analysis is only prepared upon request. Based on the OSC report's recommendations regarding mandatory student fees, there is pending legislation (Senate Bill No. 2214) that would enforce and improve the accountability of mandatory student fees.





October 2, 2017

Mr. John J. Termyna
Assistant State Auditor
Office of Legislative Services
125 South Warren Street
PO Box 067
Trenton, NJ 08625-0067

Dear Mr. Termyna:

We received the draft audit report prepared by the Office of Legislative Services and the University provides the attached response for your consideration. Please provide my office with the final report, which includes the University's comments, upon completion.

If you have any additional questions, do not hesitate to contact my office at (908) 737-7021.

Sincerely,

Andrew G. Brannen

OFFICE OF THE
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OVERVIEW

Kean University is the third largest public university in New Jersey, and serves in excess of 15,000 students on campuses located in both Union and Toms River, New Jersey, as well as in Wenzhou, China. Additionally, the University partners with numerous county colleges throughout New Jersey on 2 + 2 agreements leading to bachelor's degrees, and provides a growing online community with convenient access to a world-class education.

Kean University is the most affordable, comprehensive university in New Jersey. It serves a unique mission of both access and excellence; a majority of our students are the first in their families to attend college. The University also embraces its commitment to providing women and minorities with opportunities to pioneer in fields where they are underrepresented, such as biotechnology, architecture and computer science. Kean was named one of the top five most diverse University's in the country by DiversityInc.

The University employees in excess of 2,200 full- and part-time people throughout six colleges, dozens of academic departments and various administrative departments. The University's annual budget is approximately \$200 million.

Kean University strives be compliant with regulations and requirements in all areas of accounting, finance and purchasing undergoes a thorough, comprehensive audit annually by external auditors, as required by law. Each year, the annual audit results are reviewed by the Board of Trustees and the administration, and recommendations are addressed. The University FY2016 audit found no significant issues with operations, expenditures and procedures. The University strives be compliant with regulations and requirements in all areas of accounting, finance and purchasing. It welcomes recommendations on best practices and will implement those most appropriate and beneficial.

Earlier this year, following a scheduled review by national rating agencies, Moody's issued a strong report about the University's financial status, noting the following:

"Kean University's A2 rating is supported by its consistently very strong operating performance, steady enrollment, and good revenue diversity. Revenue diversity supports ongoing favorable operations and insulates the university from volatility in a single revenue stream. Kean's strategic positioning is good, supported by a management team that continues to exhibit strong fiscal stewardship with a dedicated focus on optimizing the use of financial resources."

The University emphasizes strict controls and accountability in all areas, particularly those related to finance. In this context, the University provides its response to the auditor's overall recommendations. Kean notes most of these recommendations were implemented or addressed during the period of the review.

PROCUREMENT AND RECEIVING

Prior to the arrival of the state audit team, Kean appointed an interim director of purchasing with a strong background in state finance and purchasing laws. The interim director immediately began a review of purchasing procedures, including the status of major University contracts. The new director worked closely with the audit team to provide both access and answers as needed.

Regarding the few specific matters noted in the audit report:

The University employs strict guidelines for *credit card* usage. The transactions identified by the auditor as “classified incorrectly” have been assigned to the appropriate cost center, and all reimbursements requests were filed with our partners at Wenzhou-Kean University. As noted in the draft audit report, the University addressed this accounting issue in November 2016 by assigning a specific credit card solely for WKU expenditures.

Regarding *vendor quotes*, the University follows all state regulations related to purchasing and bidding. For purchases under the bid threshold, multiple quotes are not required, though some University departments employ a multiple quote procedure for all purchases. At Kean, the vendor quotes process for purchases under the bid threshold is decentralized and the purchasing department does not track those records—again, it is not required by state regulations. Nevertheless, the University accepts the recommendation and will review and update purchasing guidelines accordingly.

Regarding *expired contracts*, the interim purchasing director undertook an extensive compliance review of University contracts. The two *expired contracts* referenced in the audit report were updated during the 2016 fiscal year and a new tracking system was implemented to identify contracts nearing expiration. Additionally, the use of *confirming orders* is generally confined to emergency situations, and the University will work to reduce the use of such going forward.

Recommendations related to *central receiving* and *catering services* require additional review by the University. The audit team did not find significant issues in either area, but recommended additional levels of review and approval be added to existing systems. A review of the software systems employed in these areas is underway to determine how the spirit of these recommendations might be implemented.

OUTSIDE ACTIVITY QUESTIONNAIRE

The University follows all requirements and regulations provided by the State Ethics Commission on the distribution and collection of Outside Activity Questionnaires. To improve compliance, the University will work on the development of an online filing system to simplify the process for employees and boost response rates.

KEAN UNIVERSITY FOUNDATION, INC.

The Kean University Foundation, Inc. is a separate operating 501(c)(3) organization with an independent Board of Directors who manage the organization's financial affairs. Decisions by the Foundation Board of Directors related to payment of independent contractors fall outside the purview and responsibility of Kean University.

STUDENT MANDATORY FEES

The University employs a clear, comprehensive and transparent budgeting process in areas related to tuition and fees. Auditors were provided with the University's budget procedures and budget review processes. All student fees are described in detail on the University website and this information is accessible to students, parents, employees and the public at large. The University follows all current laws and regulations involving the development and disclosure of tuition and fees, and will meet any new legislative requirements in this area.