Department of State
Commission on Higher Education

July 1, 1995 to January 28, 1998

Richard L. Fair
State Auditor
Enclosed is our report on the audit of the Department of State, Commission on Higher Education for the period July 1, 1995 to January 28, 1998.

If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair
State Auditor
February 25, 1998
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Department of State  
Commission on Higher Education

Scope

We have completed an audit of Department of State, Commission on Higher Education for the period July 1, 1995 to January 28, 1998. Our audit included financial activities accounted for in the state’s General Fund.

Total expenditures of the agency during the audit period were $4 million for administration and $91 million for grant programs. The prime responsibility of the Commission on Higher Education is to plan for, coordinate and serve as the principle advocate for an integrated system of higher education. Additionally, they provide financial assistance to institutions of higher education and students under the following programs:

- Educational Opportunity Fund
- College Bound Program
- Higher Education for Special Needs Students
- Program for the Education of Language Minority Students
- Martin Luther King Physician-Dentist Scholarships
- C. Clyde Ferguson Law Scholarship

Objectives

The objectives of our audit were to determine whether financial transactions were related to the commission’s programs, were reasonable and were recorded properly in the accounting systems. We also tested for resolution of applicable conditions noted in our prior report on the Department of Higher Education.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, 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.
In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal control structure.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were judgmentally selected. To test compliance with the state’s single audit requirements, we performed site reviews at five public accounting firms and nine colleges and universities, three private, three state, and three county.

**Conclusion**

We found that the financial transactions included in our testing were related to the agency’s programs, were reasonable and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and other matters of compliance with laws and regulations meriting management’s attention. We also noted that the commission has resolved the applicable condition noted in our prior audit report.

**Auditee’s Response**

Regarding the last sentence in the conclusion, the prior audit was of the former Department of Higher Education. The condition referred to dealt with compliance by independent audit firms with certain requirements of the state single audit circular letters. We are pleased that the former department and the Department of the Treasury, which is the current cognizant agency for single audit purposes, resolved this condition.
Additional procedures are needed to ensure compliance to the state single audit policy.

Single Audit Policy

The Commission on Higher Education administers the Educational Opportunity Fund program (EOF). The EOF program is covered by the state single audit requirements as promulgated in the Office of Management and Budget Circular Letter 93-05. This delegates the responsibility for the timely receipt of quality audit reports to the Department of the Treasury for all Commission on Higher Education state aid programs. To assure quality audit reports, the Department of the Treasury issued the State Grant Compliance Supplement establishing criteria for compliance testing and suggesting audit procedures, performed desk audits of the single audit reports and ensured that external quality control reviews of the auditors were performed. Our review of five fiscal year 1996 audit report work papers noted the requirements of the Grant State Compliance Supplement were not being satisfied. We noted instances where EOF program testing was completely excluded or only partially performed.

Circular Letter 93-05 requires recipient single audit reports to include a schedule entitled Schedule of State Financial Assistance which lists the institution’s state grant and financial assistance programs. This schedule is used to identify major state grant and aid programs. The circular letter requires the auditor to test compliance issues for all major programs. Our review noted commencing with fiscal year 1997 reports, state appropriations for operating expenses are being included on the Schedule of State Financial Assistance at the direction of the Department of the Treasury. Inclusion of these amounts has resulted in a number of the commission’s grant and aid programs not being classified as major programs, hence not requiring compliance testing.

Recommendation

We recommend that the Department of the Treasury evaluate the need to conduct reviews of audit work papers to ensure compliance with the State Grant
Compliance Supplement. We also recommend that the commission increase the monitoring of their programs in institutions where compliance testing is not required.

Auditee’s Response

In order to comply with OMB’s requirement that all aid be included on the State Financial Assistance Reports, the Department of the Treasury instructed the institutions to include all grants and aid received from the state, which would include the operating aid. As this will result in a number of the commission’s grant and aid programs not being classified as major programs and therefore not subject to compliance testing, the Department of the Treasury will instruct the institutions to continue including the operating aid on the reports, but to exclude operating aid when determining which programs will be tested for compliance.

With respect to the recommendation that the Department of the Treasury evaluate the need to conduct reviews of audit work papers to ensure compliance with the State Grant Compliance Supplement, it was Treasury’s assessment that the External Quality Control Reviews should have eliminated the need for additional reviews by its staff. However, in light of the finding and recommendation, the department and the commission, working with the Educational Opportunity Fund Board as appropriate, will determine how to ensure the necessary compliance.
Management needs to clarify allowable administrative charges for participating institutions.

Educational Opportunity Fund Program

The Educational Opportunity Fund program was enacted to provide eligible students access to and preparation for undergraduate, graduate and professional education. The program provides funding directly to students for educational costs and to institutions for administrative costs. We tested student eligibility and academic standards and found no exceptions. Institutions are required to provide a 50 percent match of administrative costs. EOF guidelines establish that the institution match may only include charges for services which are over and above those provided to the general student population. Our review of the institutional funded administrative costs noted charges which were not allowable under the guidelines. Additionally, we noted costs charged to state funded administrative expense accounts which were contrary to the program objectives and for services not available to the total student population. These costs, the majority of which were at one institution, include the following:

- contribution for attendance at a political fund raiser
- catered party for orientation
- transportation for a field trip to Great Adventure Amusement Park
- trip to Boston, including transportation, housing, and orchestra and aquarium admission fees
- formal graduation banquet

Recommendation

We recommend that the commission provide guidance and clarification to the recipient institutions for allowable state and institution administrative costs. Additionally, we recommend that management review our exceptions and take appropriate action.

Auditee’s Response

The commission and the EOF Board were pleased to learn that no exceptions were found in the audit’s test for EOF student eligibility and compliance with
standards of academic progress at nine randomly selected participating institutions. With more than 12,800 EOF students enrolled statewide and $20,410,000 committed annually in Article III state grants supporting their attendance, this finding indicates that the program and participating institutions continue to meet the fund’s original mission of providing college access and educational opportunities to New Jersey’s neediest students.

Regarding the administrative costs noted as possibly not being appropriate to the program’s objectives, EOF staff reviewed each of the instances noted and ordered an immediate refund for the contribution for attendance at a political fund raiser. Staff determined that the other costs supported activities that were generally consistent with the regulations and provided additional guidance to the institutions regarding appropriate activities.

We wish to note that studies regarding the education of nontraditional students consistently show that activities to integrate and reward these students are critical factors in their success. These activities are unlikely to be available to other students, and the EOF regulations intend that Article IV (administrative) funds be used to supplement programs available to the general student population. (See N.J.A.C. 9A:12-1.1(b)2: “EOF funds are intended to supplement and not supplant existing services provided by the institution. The EOF program may not be charged directly nor through the institutional match provision of these rules for services which are not over and above those provided to the general student population.”) The EOF regulations are currently under sunset review, and we agree that an additional clarification of the appropriate use of administrative and matching funds is needed.

Internal Controls

The objectives of internal controls are to provide management with reasonable, but not absolute, assur-
Segregation of duties in procuring goods is needed to ensure management’s objectives are achieved.

Recommendation

We recommend that management segregate the duties within the procurement cycle, thus providing reasonable assurance that errors and irregularities would be prevented or detected.

Auditee’s Response

The commission has taken steps to segregate the duties involved in the procurement cycle, as recommended.