New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Rowan University

July 1, 2005 to March 31, 2008
The Honorable Jon S. Corzine  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of Rowan University for the period of July 1, 2005 to March 31, 2008. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells  
Assistant State Auditor  
August 4, 2008
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Rowan University

Scope

We have completed an audit of Rowan University for the period July 1, 2005 to March 31, 2008. Our audit included university operating expenditures. We did not audit the Rowan University Foundation or any affiliated funds administered by the university. The South Jersey Technology Park was not audited. Annual operating expenses of the university total approximately $180 million of which $119 million is related to payroll and fringe benefit costs.

The general management and supervision of the university is vested by law with the board of trustees. Annually, the New Jersey Legislature appropriates funds to support university operations. The university’s nearly 10,000 students may pursue degrees in 36 undergraduate majors, seven teacher certification programs, 26 master’s degree programs and a doctorate in educational leadership.

Objectives

The objectives of our audit were to determine whether expenditure transactions were related to the university’s programs, were reasonable, and were recorded properly in the accounting systems.

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 Department of the Treasury, and policies of the university. Provisions that we
considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of expenditure transactions. We read the budgets, 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 expenditure transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were judgmentally selected for testing.

Conclusions

We found that the expenditure 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 and matters of compliance relating to the university procurement system which merit management's attention. In addition, we noted that the university had not resolved the significant issues concerning health benefits, time reporting, and travel costs noted in our prior report. These issues have been updated and restated in our current report.
Cancellation of Health Benefits

Health insurance including medical, prescription drug, and dental coverage is provided to eligible university employees through the State Health Benefits Program (SHBP). Financing for the premiums are provided to the SHBP through state appropriations. Coverage under the SHBP should be discontinued upon an employee’s termination or retirement, in the event of death, or when an employee is suspended or on a leave of absence without pay. In accordance with the State of New Jersey Employers’ Pensions and Benefits Administration Manual, employee deletion requests received by the Division of Pensions and Benefits by the fifth of the month will take effect on the first of the month that follows. For ten-month employees who terminate their employment in June, coverage continues in July and August.

Each month the university receives a bill from the Division of Pensions and Benefits which contains the names of all employees who are enrolled in the SHBP. We compared all employees on the fiscal year 2007 payroll with the corresponding monthly bills and found 35 individuals were still receiving coverage after their eligibility period had ended. Premium overpayments for these individuals totaled $206,000. Three of these individuals were former employees who terminated employment between September 2002 and August 2004. As a result of our review, they were removed from the SHBP on January 1, 2008. Another former employee who terminated employment in April 2005 continued to receive benefits through September 2007. Furthermore, one individual has continued to receive benefits to date even though the Division of Pensions and Benefits reports that their coverage was terminated on October 1, 2003. This individual terminated employment from the university on August 8, 2003. An additional employee was suspended without pay in March 2006, but has
continued to receive benefits coverage. Finally, one person who was erroneously added to the university’s benefits roster by the state in May 2000 has continued to receive benefits at a total cost of $44,000 to date. This individual was never employed by the university. The university notified the division in September 2003; however, no further action was taken.

Coverage has continued past the eligibility period for many individuals due to the untimely notification to the SHBP of the change in their employment status and the lack of a formal procedure for the periodic review of monthly bills to ensure only eligible employees are enrolled. The university is currently in the process of terminating the coverage of all the individuals in question.

**Recommendation**

We recommend the university conduct a thorough review of current health benefit plan billings to ensure only eligible employees are covered. The university should also ensure that current procedures are in place for the timely removal of terminated employees from benefit plans.

**Contract Awards and Administration**

Contract administration constitutes the primary part of the procurement process that assures contracted services rendered are in accordance with expectations and provides for the submission and review of adequate documentation to support payments.

Our review noted that vendor contracts were sometimes vague regarding the scope of work, the product to be delivered, and the requirements for payment. We noted the following instances
where unclear scope of work or payment terms could result in payments for non-contracted or unperformed services.

- A contract for equipment repair in which vendor compensation is based on hourly rates. The university paid the vendor $19,800 without obtaining a breakdown of actual hours worked as required by the contract.

- A professional services contract in the amount of $2.9 million for the implementation of a new financial system. Compensation for time and material services in the amount of $578,000 is provided at hourly rates. Our review noted that consultant time records were not required or maintained to substantiate the payments. Subsequent conversations with management disclosed that the university has no mechanism in place to monitor or verify consultant hours billed.

- A contract for portable restrooms was awarded in the amount of $15,800 for which we could find no evidence of competition other than emails between university employees.

- A fiscal year 2002 award for transportation services was not rebid until fiscal year 2008. The vendor included fuel surcharges and gratuities that according to the university were not contemplated in the original award. Although the fiscal year 2008 contract was awarded to the same vendor and stipulated no fuel surcharges were allowed, we observed these charges were included on the vendor invoices and paid by the university until we brought the matter to their attention. A credit for the overcharge was issued by the vendor.
• The university paid a real-estate appraisal fee of $6,000 for a residential property. The same consultant received another payment of $19,500 for the appraisal of a commercial property. In both cases the payments were made based upon a statement received that included no hourly rate or description of work explaining how the fee was determined.

• An ambiguous personal service contract in the amount of $15,000 has been awarded annually to the spouse of a prominent university employee in charge of the department where the services are being rendered. The relationship between the consultant and employee was not reported to the administration or board of trustees.

**Recommendation**

We recommend the university develop a policy addressing a minimum standard for written time records for contracts where consultants are paid by the hour. The written time records should include the consultants name and hours worked each day. We also recommend the university increase scrutiny of vendor invoices before payments are processed.

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**Entertainment/Official Receptions**

The university’s entertainment/official reception policy authorizes the payment of certain expenses based on the source of funds to be utilized. For example, the policy specifically prohibits expenses for employee related social functions (staff meetings, retirements, awards, appointments, etc.) from being paid with general university operating funds. These expenses are allowable if paid with designated funds including the university foundation.

University entertainment expenses approximate
$1.2 million annually. We selected 44 entertainment transactions totaling $515,000 over a two-year period and noted that 23 were not pre-approved as required. In addition, several transactions involved employee related social functions that were paid with general university operating funds. Specifically, our review noted the following:

- End of the school year catered parties for staff and faculty totaling $14,500 that was paid for with general operating funds. The average cost was approximately $104 per person based on the number of guests per the vendor invoices.

- Two parties for new employees totaling $7,550 were paid with general operating funds. A total of 84 people were reported to have attended at a cost of $90 per person.

- The reimbursement of $5,668 to an employee who used her personal credit card to pay for an event that was not properly approved in advance. The expense was charged to a self funded program.

- A duplicate payment in the amount of $3,500 that was returned by the vendor.

- Cash advances to coaches totaling $14,600 for student athlete meal allowances that were incorrectly charged to the entertainment account.

**Recommendation**

We recommend the university strengthen the review process over entertainment/official reception expenses to ensure that payments are reasonable, necessary, in compliance with the existing policy, and allocated to the proper account.
Travel Reimbursements

The university travel policy provides for payment of employee and vendor travel expenses that are deemed necessary and essential to transacting the official business of the university. The policy specifically states reimbursements will be made based upon actual costs as supported by original receipts and that the most economical use of transportation must be utilized unless otherwise justified in advance. This policy applies to all administrative employees, faculty, staff, and others authorized to travel on behalf of the university.

University travel expenses approximate $1.6 million annually. Our audit disclosed that controls over the approval and monitoring of travel reimbursements are inadequate which has allowed for unsupported payments to be processed by the university. Our review of expenses totaling $91,300 over a two-year period disclosed nine of 20 payments were not approved in accordance with the established policy. In addition, six did not have proper supporting documentation. Specifics follow:

- The university entered into a contract for a new financial system which provides for reimbursement of vendor travel and living expenses. We noted that payments were based on summary statements that were not supported by adequate documentation including receipts. Reimbursed expenses included airfare for which the class of service, arrival and departure city, and dates of travel were not specified. Expenses categorized as auto/taxi were also reimbursed in total without the mode of transportation or dates specified. Miscellaneous charges were also reimbursed with no further description provided. The university has budgeted $272,500 for these costs of which $124,300
has been paid as of November 2007.

- Cash advances are provided to coaches for student athlete daily meal allowances. A formal policy requiring each student to sign for the money at the time of receipt has not been established which makes it difficult to determine if the advance was fully distributed to the athletes. In one case unused funds in the amount of $3,591 were returned but a formal reconciliation documenting how this amount was determined was not required. The initial cash advance was for $5,415. A best practice based on the policy of another university requires a student per diem signature form to be completed. The dollar amount given to each athlete is posted on the form at the time the student signs and receives the money.

- An advance payment of $5,050 to reserve 43 rooms for an athletic team was not supported by a vendor invoice of actual costs.

**Recommendation**

We recommend the university strengthen oversight and approval procedures to ensure travel expenses are reimbursed in accordance with existing policies. We further recommend the university develop and implement controls over meal advances which should require athletes to sign for funds received and a formal reconciliation be prepared to support distributed amounts.
Purchase Card Program

Certain university employees are authorized to use University Purchase Cards (UPC) as a supplement to the purchase order process or in emergency situations. The purpose of these cards is to reduce the need to prepare miscellaneous disbursement vouchers or requisitions for small dollar purchases. As of February 2008, there were 16 executive purchase cards issued and 147 regular purchase cards issued per banking records. Executive cards have fewer purchasing restrictions and higher credit limits which range from $5,000 to $20,000. The university had total UPC program costs of approximately $404,000 in fiscal year 2006, $362,000 in fiscal year 2007 and $104,000 in fiscal year 2008 as of December 31, 2007.

A merchant category code block is placed on each UPC to prevent unauthorized purchases. Our review disclosed that the blocking mechanism is not working as intended resulting in the purchase of unallowable items. Specifically, our review of the UPC program and select transactions noted the following exceptions.

- A disparity exists between the number of active purchase cards reported by the university and the bank. Among the 163 purchase cards reported active by the bank are 27 cards that are not listed as active per university records. No purchases were made with these cards. Conversely, the university has five purchase cards reported active that the bank does not have recorded.

- Credit card payments are made without verifying goods have been received.

- Regular purchase card holders charged travel and entertainment expenses including airfare, hotel, and restaurant costs which are strictly
prohibited by the policy. Other prohibited charges included payments for gasoline, software, campus bookstore items, residential internet services, and a parking ticket. We also noted the frequent payment of sales tax even though the university is exempt from paying state sales tax.

- Executive card holders charged numerous equipment purchases including $3,800 for carbon monoxide detectors that should be subject to the procurement process through the issuance of a purchase order. Unreasonable executive card charges noted included a newspaper subscription for a private residence, gift certificates in the amount of $150 for a holiday party, and food and supplies totaling $540 for an employee welcome back picnic.

**Recommendations**

The university should implement adequate monitoring procedures to ensure proper internal controls over the issuance, cancellation, and utilization of university purchase cards. Also, the university should require UPC holders to adhere to established procedures.

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**Time Reporting and Scheduling**

Payroll expenditures for facilities and public safety totaled $9.1 million during fiscal year 2007. Student payroll expenditures totaled $3.1 million of which $617,000 was incurred by the university housing and student life departments collectively. Management is responsible for establishing and implementing internal controls that safeguard assets from loss and unauthorized use. These controls which include supervisory review and approval of time records and proper

Internal controls over payroll should be strengthened.
monitoring of overtime facilitate the achievement of management objectives by serving as a system of checks and balances which assure the proper use of resources. Currently, conditions exist which weaken this assurance and could lead to the payment of unearned wages.

Employees in the facilities department utilize a swipe-card system to record their hours worked. At the end of each pay period a printout of each employee’s hours worked is generated and summarized by the timekeeper for payroll system input. Although the summary sheet is signed by the Director of Facilities, individual employee records are not reviewed or signed by an immediate supervisor.

Similarly, public safety employees utilize a time-clock system to record hours worked. Our review of employee time cards for four selected pay periods during fiscal year 2007 disclosed that 47 of 165 time cards were not approved by the supervisor. A time-clock system is also utilized by the university housing and student life departments to record non-graduate assistant student hours worked. Our review disclosed that student time cards in these departments are not signed by an immediate supervisor. Graduate assistants are paid a stipend for performing work assignments up to a maximum of 20 hours per week. However, time records are not maintained.

Finally, one employee in the facilities department works overtime on a daily basis to maintain the university swimming pools. Overtime should normally be the result of nonrecurring unexpected events or emergency situations. It should not alleviate conditions which occur on a routine basis. This individual earned a base salary of $57,000 during fiscal year 2007 and earned an additional $45,000 in overtime during the same period. No scheduling adjustments were attempted to alleviate the need for overtime.
Recommendations

We recommend that the university strengthen its review of time records by requiring supervisor approval. We further recommend that employee work schedules be adjusted to eliminate the need for overtime where possible.
July 23, 2008

Stephen M. Eells
Assistant State Auditor
New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor
125 South Warren Street
P.O. Box 067
Trenton, NJ 08625-0067

HAND DELIVERED

Re: Rowan University
Response to 2005-2008 Audit Report

Dear Mr. Eells:

This will acknowledge receipt of confidential draft of the audit report prepared by
the Office of the State Auditor dated July 8, 2008.

Please find enclosed a written response to the audit report, which response we
understand will be presented in the report at the time of its release to the Governor and
the Legislature on or about July 30, 2008.

Very truly yours,

[Signature]

Richard Hale
Vice President for Administration & Finance

cc: Donald Farish, President (w/ draft and response)
    Barbara Kleva, Esq., General Counsel (w/ draft and response)
    Members of Trustees Audit Committee (w/draft and response)
ROWAN UNIVERSITY

RESPONSE TO AUDIT REPORT PREPARED BY
OFFICE OF NEW JERSEY STATE AUDITOR
FOR THE PERIOD JULY 1, 2005 TO MARCH 31, 2008

Introduction

Rowan University has received a “Confidential Draft” of the Audit Report prepared on July 8, 2008 by the New Jersey Office of the State Auditor. Institutional officers have carefully reviewed the Draft Audit Report and have accepted the State Auditor’s invitation to comment on various aspects of the Report. This document constitutes Rowan University’s response to the Report.

In General

Rowan has reviewed and accepts the scope, objectives and methodology used by the State Auditor. With respect to the conclusions stated on page 2 of the Report, Rowan notes that the State Auditor states as follows:

We found that the expenditure transactions included in our testing were related to the university’s programs, were reasonable, and were recorded properly in the accounting systems.

Notwithstanding the generally favorable conclusion, the State Auditor went on to note that there were certain internal control weaknesses and procurement issues “which merit management’s attention.” The specific control weaknesses and procurement issues were included in the Audit Report, and will be responded to herein seriatim.

Cancellation of Health Benefits

State Auditor Finding. The State Auditor found that a number of individuals received benefits coverage after their eligibility period had ended. Among the individuals who received benefits while not employed by the University were former employees whose service had been terminated over a two year period, one was paid benefits while on suspended status, and one person received benefits although never employed by the University.
**State Auditor Recommendation.** The Auditor recommends that "the university conduct a thorough review of current health benefit plan billings to ensure only eligible employees are covered. The university should ensure that current procedures are in place for the timely removal of terminated employees from benefit plans."

**University Response.** The university concurs with the recommendation of the State Auditor, and has and will take necessary steps to ensure that only eligible employees are covered by State health benefits. Having concurred with the recommendation, the University finds it necessary to point out that in certain cases the initial error was made by the State Division of Pensions, although the error could have been discovered and corrected by timely action by the University. As one example, the Audit Report indicates that three individuals had been "set up by Division of Pensions twice with different social security numbers." The University sent a report to the Division deleting the employees by name and correct social security number, but the name was not deleted which contained the incorrect social security number that had been erroneously introduced into the system by the Division. The University assumed that the employees had been deleted, but did not review the subsequent state reports to determine whether the employees had in fact been deleted under another social security number.

In another case, the University sent information to notify Trenton to delete an "employee" who never worked at the University, but the intended action of deletion apparently did not take place. The University agrees that it should not assume that the information was properly received by Trenton or that the deletion from the benefits program had in fact taken place.

Another example of improper action cited in the State Audit Report related to an employee who was allowed to continue receiving benefits while suspended without pay, but who appealed the suspension. In this case, a decision was made that the employee had a reasonable expectation of being successful on his appeal, which resulted in the University's decision not to remove benefits because benefits would have to be made retroactive if the appeal was in fact successful.

The University has taken specific action to respond to the recommendations, as follows:

1. The timely transmittal of information to Trenton has been solved by transmitting information on-line. Further, under the new system, personnel information may be entered directly by the University, thus eliminating the possibility of errors in communicating. As a backup check, the University's Office of Human Resources will keep an active folder of COBRA applications that were sent to employees and a copy of the SHBP transmittal of deletions to be compared to the monthly report.
2. To ascertain that the State took proper action with regard to former employees, a review of the State report against a report created by the University’s Banner system will be completed at least quarterly by the benefits department within the Office of Human Resources.

3. With respect to employees who have been suspended without pay, the Senior Director of Human Resources will consult with the University’s General Counsel to determine whether benefits should be terminated immediately or whether the benefits should continue in the best interest of the University and State. The conclusion reached will be communicated to the appropriate State office.

In sum, the ability to input directly into the State system has reduced process time and opportunity for error since paperwork does not have to be delivered to Trenton. Reviewing the monthly statements when they arrive against COBRA notices, SHBP Transmittal of Deletion copies and the NPA forms for separation by the Office of Human Resources will assure that the required changes have occurred. Finally, the quarterly audit of the benefits office within the Office of Human Resources should eliminate the payment of benefits to persons no longer employed at the University.

**Contract Awards and Administration**

**State Auditor Findings.** The State Auditor “noted that vendor contracts were sometimes vague regarding the scope of work, the product to be delivered and the requirements for payment.”

**State Auditor Recommendation.** The Auditor recommends that “the university develop a policy addressing the minimum standard for written time records for contracts where consultants are paid by the hour. The written time records should include the consultant’s name and hours worked each day. We also recommend the university increase scrutiny of vendor invoices before payments are processed.”

**University Response.** The University accepts the recommendations of the State Auditor to improve the payment process for contracts. Having said that, it should be noted that not all of the specific instances cited in the State Audit Report relate to hourly work by consultants, but rather were contracts for a specific service or product undertaken by a professional. Unless an hourly rate was set forth in the contract, it would not be expected that contracts for a service or product would include reference to hours spent in providing the service or developing the product.

Nevertheless, the Report does indicate that improvements should be made to verify payments in appropriate cases, and the University agrees. The improvements to be made will include the following:
1. Prior to processing an invoice for payment the end user (department ordering the service or product) will be required to certify that the services or product contemplated were in fact received, and where hourly rates are contemplated in the contracts, the end user will not only certify that the payment is appropriate, but also will include proof submitted to him or her that the hours were in fact worked.

2. Without an appropriate certification appearing on or with the invoice, payment will not be generated.

With respect to the “ambiguous personal service contract” described in the Audit Report, the relationship in question was within the ethics and conflict of interest policies of the University, although admittedly the file failed to contain a declaration to that effect.

Entertainment/Official Receptions

State Audit Findings. A number of “selected” entertainment transactions were not pre-approved as required. “In addition, several transactions involved employee related social functions that were paid with general university operating funds.”

State Audit Recommendations. The State Auditors “recommend the university strengthen the review process over entertainment/official reception expenses to ensure that payments are reasonably necessary, in compliance with existing policy, and allocated to the proper account.”

University Response. The University accepts the recommendation of the State Auditor. It has examined the several instances cited in the Report, and has concluded that while advance approval was in fact granted, there is insufficient written documentation of same. Therefore, prior to future payments for entertainment or official receptions, the Accounts Payable Office will insist that the completed and signed University “Entertainment/Official Reception Report” is in its possession, indicating prior approval having been obtained. The Accounts Payable Office also will determine, consistent with State rules, whether general university funds should be used to pay for the event or whether another source, such as the foundation, should be charged.

Travel Reimbursement

State Audit Findings. The “audit disclosed that controls over the approval and monitoring of travel reimbursements are inadequate which has allowed for unsupported payments to be processed by the university.”
State Audit Recommendations. The State Audit Report recommends that “the university strengthen oversight and approval procedures to ensure travel expenses are reimbursed in accordance with existing policies. We further recommend the university develop and implement controls over meal advances which should require athletes to sign for funds received and a formal reconciliation be prepared to support distributed amounts.”

University Response. The University agrees with the recommendation and already has taken the following steps to improve accountability:

1. Proper supporting documentation (including receipts) will be required prior to reimbursement of any travel expenses, including an indication of advance approval by the appropriate University officer.

2. With respect to cash advances for athletes and coaches, a form will be developed and utilized prior to any athletic or other student trip in which cash advances are provided, which form will contain a list of participants and the amount allocated to each participant. Each athlete and coach will be required to sign for the cash advance as a part of the form. Finally, the form will be returned to Accounts Payable which will contain a certification that payments were made as indicated on the form and any balance remaining (with the amount indicated) has been returned to the University Bursar.

Purchase Card Program

State Audit Findings. The State Audit Report indicates that in some cases insufficient processes were utilized regarding the use of purchase cards. The insufficient processes are reflected in a disparity between the number of cards reported by the university and the bank. In addition, certain card payments were made without verifying that goods have been received, certain prohibited transactions were noted, and some unreasonable executive card charges were made.

State Audit Recommendations. The report recommends that “the university should implement adequate monitoring procedures to ensure proper internal controls over the issuance, cancellation and utilization of university purchase cards. Also, the university should require UPC holders to adhere to established procedures.”

University Response. The University accepts the recommendations, and in fact has developed and initiated policies and procedures that address each of the findings.
Time Reporting and Scheduling

**State Audit Findings.** The report indicates that there is insufficient control regarding supervisory review and approval of time records and proper monitoring of overtime within the facilities area and there is no adequate system of “proper checks and balances which assure the proper use of resources.” The Report goes on to state “Currently, conditions exist which weaken this assurance and could lead to the payment of unearned wages.” A number of specific examples were cited in the Report.

**State Audit Recommendations.** The Auditors “recommend that the university strengthen its review of time records by requiring supervisor approval. We further recommend that employee work schedules be adjusted to eliminate the need for overtime where possible.”

**University Response.** The University agrees with the findings relating to time reporting and scheduling. Further, it is in the process of implementing a policy and procedure that will require that the immediate supervisor of each employee certify that he or she has provided advance approval of the use of overtime, and that the time stated is accurate. With regard to the “checks and balances” issue, The Office of Human Resources will work with the Facilities Operations Division to develop and implement proper staffing policies and procedures that will allow overtime payments only for specific and limited occasions (such as emergencies); and the current system of reporting time will be streamlined and be placed within the Payroll Office. Finally, the University will introduce on-line reporting of staffing and time reporting to bring an element of “transparency” into the system.

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Rowan University appreciates the professionalism provided by the State Audit team and appreciates that the team approached its task with the spirit of mutual cooperation. Further, the University recognizes that an outside view of its operation, when conducted in a constructive manner as was done by the Audit team, can only help to improve operations. We also recognize that the Audit report is an “exception report” and that as the Audit Team reported in the beginning of its Report, “we found that the expenditure transactions included in our testing were related to the university’s programs, were reasonable, and were recorded properly in the accounting systems.”

Dated: July 23, 2008

Respectfully submitted,

Richard Hale
Vice President for Administration & Finance
Rowan University