New Jersey State Legislature
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Office of the State Auditor

Thomas Edison State College
and the State Library

July 1, 1999 to April 30, 2001

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State Auditor
Enclosed is our report on the audit of Thomas Edison State College and the State Library for the period July 1, 1999 to April 30, 2001.

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

July 17, 2001
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Thomas Edison State College and the State Library

Scope

We have completed an audit of Thomas Edison State College and the State Library for the period July 1, 1999 to April 30, 2001. Our audit included financial activities accounted for in the Current Funds of the college and library.

Thomas Edison State College was founded in 1972 and was officially established as the ninth State College on May 18, 1973. The college became autonomous in 1986 when the operation and management became the sole responsibility of its board of trustees. Its mission is to provide diverse and alternative methods of achieving a collegiate education of the highest quality for mature adults. Annual enrollment is approximately 10,000 students.

In 1996, the Governor issued an executive reorganization plan that transferred the State Library from the Department of Education to the Department of State. Through a memorandum of understanding between Thomas Edison State College and the Department of State, the library is considered an affiliate of the college with daily operations administered by the college.

The State Library purchases, prepares, houses and circulates books, periodicals and other library materials, and supplies information and consultative services to the three branches of state government, and to public, school, academic, and special libraries. The library also ensures that affiliated public libraries within the state are provided available federal and state financial assistance.

Fiscal year 2000 college and library expenditures were $19.6 million and $25.5 million, respectively. College and library revenues were $20.8 million and $25.8 million, respectively.
Revenue totals include state appropriations of $6.1 million for the college and $18.1 million for the library.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the programs of the college and library, were reasonable, and were recorded properly in the accounting system. We also tested for resolution of significant conditions noted in our prior report on the State Library. 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 college and library. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also read the budget message, reviewed financial trends, read board minutes, and interviewed college and library 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 about the validity of transactions as well as internal control and compliance attributes. Sample populations were sorted and transactions were judgmentally selected for testing.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the library and walked through the system to determine if the corrective action was effective.
Conclusions

We found that the financial transactions included in our testing were related to the programs of the college and library, were reasonable, and were properly recorded in the accounting system. In making this determination, we noted certain internal control weaknesses meriting management’s attention.

We also found the library has resolved the significant issues noted in our prior report except for the collection of book fees. This issue has been updated and restated in our current report.
Severance Package

Thomas Edison State College granted severance packages costing $90,000 to two former employees. The packages included salaries and health benefit coverage for several months. Each employee was maintained on the regular payroll for specified time periods outlined in the agreements. The employees, however, were not working in any capacity for the college during this time.

Recommendation

We recommend that the college discontinue the practice of granting severance packages.

Auditee’s Response

It is not, and has not been the practice of the college to grant severance packages. The two former employees noted were unusual situations in which the College conferred with the Governor’s Office of Employee Relations, among others to determine the best method for handling this unique situation. The employees were available, and in fact, used for consultation, information sharing, and continuity of service during this period.

The college must ensure that students pay all outstanding tuition and fees prior to graduation.

Student Receivables

The policy of Thomas Edison State College is to allow students to register although they have outstanding tuition and fees. Students, however, are required to pay all outstanding balances prior to graduation. As of June 30, 2000, the student receivable for tuition and fees totaled $386,000.

Our audit revealed that 18 students who graduated from September 1997 through January 2001 owed $6,560 in tuition and fees including course tuition, graduation fees, portfolio assessment fees, credit transfer evaluation fees, masters program tuition, and exam fees.
The bursar is responsible for reviewing student accounts prior to graduation to ensure that all outstanding tuition and fees are paid. However, the bursar has not been signing off on graduates since September 1999 and the college was not able to provide us with documentation of the review of any of the graduates in question.

**Recommendation**

We recommend that the bursar resume approving all graduates to ensure that tuition and fees are paid prior to graduation.

**Auditee’s Response**

We concur that there should have been a formal procedure in place to ensure that students are not allowed to graduate while owing tuition and fees. A procedure has been put into place for the Bursar in conjunction with the Registrar to review and sign off on all students prior to graduation. Due to the large workload involved in the implementation of the new student system, this formal procedure was not completed during this period. It should be noted that an informal review of the students’ accounts prior to graduation was being performed during this period and consequently, only 18 of the roughly 3000 graduates had an outstanding balance.

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**Internal Controls**

The purpose of a system of internal controls is to provide adequate checks and balances that ensure financial transactions are properly authorized and recorded and to provide a means to safeguard the assets of the entity. In order to accomplish these objectives, management generally provides a means to verify that all receipts are recorded and deposited timely.

During fiscal year 2000, the college collected $9.5 million in tuition and fees at seven locations at the college. The college has standard written procedures over the collection of revenue which require that
checks be restrictively endorsed upon receipt, payments be entered on a check/credit card log which is signed by the person who prepared the log, and supporting documentation be date/time stamped.

Our review of cash receipts found that the college is not following its written procedures over the collection of revenue. Specifically, we noted that 25 of 29 cash receipts reviewed were not date/time stamped. The four cash receipts that were date/time stamped were deposited from 4 to 15 days after they were received. Our review also noted that checks received at locations other than the Bursar’s Office are not restrictively endorsed upon receipt. In addition, three of five receipts collected at one location on February 15, 2001 were not deposited timely. The three were received by the Bursar’s Office for deposit 11, 12, and 26 days later.

The timely deposit of all cash receipts maximizes interest income for the college and ensures that funds are available to support the college’s operations as soon as possible. The college has created an unnecessary risk by not restrictively endorsing checks upon receipt and depositing revenue timely.

**Recommendation**

We recommend that the college process revenue in accordance with established procedures and deposit receipts timely.

**Auditee’s Response**

We concur that cash receipts should be handled in accordance with the College’s established procedures and should be deposited in a timely manner. There has been a memorandum issued to the applicable departments explaining the importance of adhering to the College policies and procedures followed by meetings with the key representatives. The Bursar’s office will monitor all incoming receipts from other offices to ensure that the policies and procedures are followed and make corrective action as necessary.
The college should assess the impact the accounts receivable component of its new accounting system has had on its operations.

Accounting System

The college purchased a new accounting system to integrate its financial and academic records into one system. Prior to purchasing the new system, the college utilized various independent systems which were developed in-house.

Use of the new system began when the financial module was implemented on July 1, 1998. The student module was next to be implemented on October 1, 1999 and the financial aid module was the last to be implemented on July 1, 2000.

The college has encountered numerous problems with the accounts receivable component of the new accounting system. Our review noted that the system generates invoices for bills that have already been paid resulting in student accounts being inaccurate. In addition, the system generates annual enrollment charges for all students enrolled in the prior year. Charges for students who have not enrolled for the current year must be manually adjusted.

The college has spent considerable time and resources addressing the system problems. An employee with an annual salary of $45,000 spends a significant amount of time reviewing bills before they are sent to students. Another employee with a salary of $19,000 spends a portion of her time removing annual enrollment charges from the system.

Recommendation

We recommend the college assess the impact the accounts receivable component of its new accounting system is having on its operations and establish a time frame to conclude on whether it is meeting its expectations. We further recommend the college consider and investigate alternatives if expectations are not met.
Auditee’s Response

As with any new system, there are areas that were in need of improvement and refinement during the initial period after conversion and implementation. The college’s Administration and Finance Division has been continuously assessing the impact of the accounts receivable component since implementation and making corrective action as necessary. The system is a canned software product that has been developed for the higher education community. Therefore, it is not a custom product that is perfectly suited to Thomas Edison State College in all instances, but it is considered the best product to meet our needs.

The software package is designed to automatically invoice the student at the point of registration. After the initial registration period, any change in registration status will generate a new invoice and reverse the old invoice. During early stages of implementation, some of these recalculations required manual corrections. This problem was corrected within the first year of implementation and no further action is required.

The system does not generate annual enrollment charges. The College fee structure requires students to pay an annual charge to be enrolled. Approximately 45 days before their enrollment is set to expire, the College manually bills students with a batch process for the next year's annual enrollment fee. If the student chooses not to continue their enrollment, the invoice is removed approximately 90 days after their anniversary date.

We concur that considerable time and resources have been spent addressing system issues. This is a normal and necessary action during any comprehensive system conversion. The College will continue to spend time and resources on improving and refining the system to meet our needs in a dynamic environment.
Payments to faculty mentors should not include bonuses for submitting final grades on time.

Faculty Mentor Compensation

Distance and Independent Adult Learning (DIAL) at Thomas Edison State College provides adults four course options including guided study, guided study with e-mail, on-line, and contract learning that take place outside the traditional college classroom. Faculty from other college institutions sign annual agreements to mentor the courses. Compensation as outlined in the fiscal year 2000 DIAL Faculty Mentor Remuneration Schedule provides all mentors a “$10/student bonus for on time grades”.

Bonus payments totaled $66,000 in fiscal year 2000. Submitting final grades is a routine responsibility and extra compensation should not be given for meeting deadlines. Cost savings can be realized through the elimination of the bonus plan which is often paid for submitting failing grades for students who have dropped out of classes.

Recommendation

We recommend that the college eliminate the bonus policy.

Auditee’s Response

The DIAL faculty payments are based upon the actual work that is completed by the faculty member. The payments are based upon the number of assignments and exams that have been graded with an additional payment processed when the grades are submitted on time. Payments are made based on the number of final grades submitted by the faculty member regardless of what grade the student earned. Therefore, a faculty member who assigns a grade of F or E has correctly and successfully assigned a grade to the student. The payment, which we call a bonus to our faculty consultants, is used to ensure that the faculty members submit grades on time and is actually a means to penalize late grade submissions. The College will not eliminate the bonus payments, as it has proven to be an effective policy.
Payments for travel expenses should be more effectively controlled.

Travel Costs

The college travel policy provides for payment of employee travel expenses that are necessary and essential to transacting the official business of the college. The policy stipulates that “The most economical air travel should be employed, including the use of discounted and special rates.” It further states that “Charges for classes of services other than economy (i.e., Business or First Class) are to be considered privileged and ineligible...” unless they result in cost savings or avoid excessive flight durations. The established per diem reimbursement for meals is actual reasonable costs. Additionally, the policy states that “In any cases in which the total per diem reimbursement exceeds $100 or meals exceed $36.00, the costs will be considered to be in excess of “actual reasonable expenditures” in the absence of substantial justification accompanying the Travel Expense Voucher.” The policy also prohibits the reimbursement of personal charges including valet service.

Fiscal year 2000 travel expenses incurred by the college totaled $229,000. In our review of college travel expenses totaling $16,000, we noted the following:

- An employee attended a conference in Orlando, Florida which concluded on November 18, 1999. Hotel charges totaling $250 which were incurred on November 19 were reimbursed. Evidence of overall cost savings resulting from the extra night stay was not available.

- No justification for meal reimbursements exceeding per diem rates.

- Valet parking at hotels totaling $66.

- The college, utilizing general operating funds, paid $251 for airfare for the college President’s spouse to attend a conference from March 16 to
March 19, 2000. Meal expenses totaling $200 incurred by both individuals on March 18 were reimbursed as well. Although board policy permits the reimbursement of such expenses incurred by the president’s spouse, the reimbursement is to be made by the College Foundation.

**Recommendation**

We recommend the college reimburse employee travel expenses in accordance with existing policy. We further recommend that eligible payments for the president’s spouse be made from the College Foundation.

**Auditee’s Response**

The employees are encouraged to take steps to minimize the travel cost to the College, such as extending conference trips through Saturday night when the additional hotel and meal costs are more than offset by the reduced airfare. This was the case for the conference in Orlando, Florida.

All meal reimbursements are reviewed by the employee’s Department Head, Vice President and Controller to ensure that costs are reasonable. Travel reimbursement is required to be supported by proper documentation that outlines the purpose of the conference, event, etc., along with receipts for all meals that are in excess of the per diem rate. Reasonableness is determined by considering the circumstances of the event, including its location. It is clearly inappropriate to expect that certain events should be capped by the per diem rate. In addition, it would be considered unnecessarily burdensome and a misappropriation of resources to try to document each instance when the per diem is exceeded, when management feels the charge is clearly reasonable. Any valet charges that have been reimbursed have also been reviewed for reasonableness. There are instances when hotels require that the valet service be used and it would not be prudent to disallow such charges.
As was noted, Board of Trustees permits the reimbursement of such expenses. We concur that it is the College policy to pay for travel reimbursements for the President’s spouse from the Foundation. We will make future payments from the Foundation or consider changing the policy to allow the College to make the travel reimbursements.

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**Collection of Book Fees**

Our prior audit report recommended that the library utilize existing state collection programs to enhance its collection efforts of lost book fees.

Our review disclosed that 376 borrowers owed the library a total of $52,000 as of April 30, 2001. This represents a 33 percent increase from the $39,000 at June 30, 1993 as noted in our prior audit report. During the last three fiscal years the library collected only $3,700.

**Recommendation**

We recommend the library pursue all options, including existing state collection programs, to enhance its collection effort of lost book fees.

**Auditee’s Response**

When this recommendation was first made, the State Library discussed the possibility of using the SOIL program to recoup lost book funds with appropriate Treasury officials. We were informed at that time that the SOIL program required a social security number to match with Taxation and other records. The State Library does not collect social security numbers for our customer database.

When this issue was raised again during the 2001 audit, a follow up inquiry was made with the Treasury. The SOIL program still requires the use of a social security number to assure that they are dealing with the same person as the agency attempting to collect the money owed. The State Library has no legitimate reason to ask customers for
their social security numbers other than to have it for potential referral to SOIL for the small percentage of customers who do not return books. In addition, the primary objective of the fee is to encourage the return of overdue books. All patrons with outstanding fees have their library privileges suspended until the book is returned or the fee is paid.