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

Rutgers, The State University of New Jersey

July 1, 2006 to September 30, 2007

Stephen M. Eells
Assistant State Auditor
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 Rutgers, The State University of New Jersey for the period of July 1, 2006 to September 30, 2007. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells
Assistant State Auditor
May 14, 2008
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Rutgers, The State University of New Jersey

Scope

We have completed an audit of Rutgers, The State University of New Jersey for the period July 1, 2006 to September 30, 2007. The primary missions of the university are instruction, research, and public service. Annual expenditures total approximately $1.5 billion. The university has a financial statement audit performed annually by an independent accounting firm and it maintains an internal audit group. Based on these audits and our survey, we limited our audit to the following activities: faculty salaries, fund balance, student accounts receivable, travel related activities, and petty cash which are accounted for in the university’s operating accounts.

Objectives

The objective of our audit was to determine whether financial transactions were related to the university’s activities, 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 and policies of the university. We read budgets, reviewed financial trends and reports of other auditors, and interviewed university personnel to obtain an understanding of the selected activities 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 transactions were judgmentally selected for testing.
Conclusions

We found that financial transactions included in our testing were related to university activities, were reasonable, and were properly recorded in the accounting systems. In making these determinations, we noted certain internal control weaknesses meriting management’s attention.
Vacation Policy

In accordance with university policy, unused vacation time is forfeited unless approval is granted by the supervisor. A maximum of one year's vacation allowance may be carried forward into the succeeding year. The university is very liberal in granting these approvals. At the end of fiscal year 2007 the university had 3,800 employees who had carried forward vacation balances.

We found 534 employees as of June 30, 2007 that had balances greater than one year of earned vacation days which is a violation of the vacation policy. There were 8,336 excess vacation days resulting in a potential liability of $3.2 million as illustrated below.

<table>
<thead>
<tr>
<th>Vacation Days</th>
<th>Employees</th>
<th>Total Salaries</th>
<th>Excess Days</th>
<th>Potential Cost as of 6/30/07</th>
</tr>
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<tbody>
<tr>
<td>1-10</td>
<td>301</td>
<td>$20,368,283</td>
<td>1370</td>
<td>$363,426</td>
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<tr>
<td>11-20</td>
<td>105</td>
<td>$8,934,711</td>
<td>1534</td>
<td>$498,039</td>
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<tr>
<td>21-30</td>
<td>42</td>
<td>$3,408,840</td>
<td>1041</td>
<td>$321,442</td>
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<tr>
<td>31-40</td>
<td>30</td>
<td>$2,826,273</td>
<td>1090</td>
<td>$390,748</td>
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<tr>
<td>41-50</td>
<td>32</td>
<td>$4,091,959</td>
<td>1482</td>
<td>$722,886</td>
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<td>51-60</td>
<td>9</td>
<td>$874,829</td>
<td>492</td>
<td>$181,309</td>
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<td>61-70</td>
<td>4</td>
<td>$489,263</td>
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<td>279</td>
<td>$94,183</td>
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<tr>
<td>101-120</td>
<td>3</td>
<td>$491,839</td>
<td>317</td>
<td>$200,003</td>
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<tr>
<td>166</td>
<td>1</td>
<td>$196,717</td>
<td>166</td>
<td>$125,115</td>
</tr>
<tr>
<td>Total</td>
<td>534</td>
<td>$42,398,450</td>
<td>8336</td>
<td>$3,150,521</td>
</tr>
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</table>

All vacation time must be exhausted prior to the effective date of retirement including the current year accrued vacation time. However, we found the university paid $130,000 to a retiring employee for unused vacation time.
**Recommendation**

We recommend that the university enforce its vacation policy.

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**Travel Expenses**

According to the university’s Travel, Travel Incidental, and Meal Expense Policy 40.4.1, the university will reimburse individuals for reasonable, necessary, appropriate, and approved travel and business expenses incurred in the performance of university business. Reasonable is defined as the cost or service that is not excessive. Appropriate means the expenditure is consistent with the objectives of the program, project, or task and is allowable under the terms and conditions of the underlying funding source and/or policies. Necessary means the expenditure is required to achieve the expected goals or outcomes of the program, project, or task.

Examples of expenses that will not be reimbursed by the university include expenses that are not Rutgers business-related, spouse's/family member's travel costs, business or first class tickets, unreasonably expensive meals and alcoholic beverages which cannot be reimbursed from state or federal funding sources, gifts, and personal items and services.

Our review of travel expenses noted the following exceptions.

- Twenty-nine of 491 air and rail fares processed during April and May 2007 were unreasonably high. We noted 23 airfares totaling $21,000 were more than 100 percent greater than current rates. Additionally, we noted six Amtrak Acela line tickets at twice the cost of a regular Amtrak ticket. The travel time difference between the two trains was insignificant.
• The university paid airfare, hotel and per diems for the spouses, guests, and children of the athletic staff at a bowl game. In room movies, valet parking, room service, internet connections, and phone charges totaling $11,000 were also paid. The university does not currently have a formal policy addressing these types of expenditures.

**Recommendation**

We recommend that the university enforce the policy to ensure that only reasonable, necessary, and allowable expenses are paid.

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**Petty Cash**

According to University Petty Cash Funds Policy 40.2.7, a petty cash fund may be authorized to expedite the primary work of a department and is to be used to pay relatively small expenses, such as freight and delivery charges, office supplies, research and lab supplies, or similar miscellaneous items. The petty cash fund should not be used for items of $25 or more which can be anticipated and requisitioned, travel expenses, personal loans, or other personal purposes. If a request is not made to replenish the fund at least every six to eight weeks, the petty cash fund would be deemed not essential and should be closed.

As of November 2007, there were 243 petty cash funds totaling $160,000. Eighty four funds totaling $20,000 showed no activity between July 2006 and November 2007 and should have been closed. The review of petty cash transactions showed reimbursements for food, including meal allowances to student athletes and coaches which are disallowed under the policy. We also noted payments for a number of items such as, outdoor furniture, fabrics, batteries, and small repairs that exceeded the $25 limit which could have been anticipated and requisitioned. Improper monitoring and a lack of periodic reviews may result in a misuse of these funds.
Recommendation

We recommend the university periodically review activity in the petty cash funds and request departments to close inactive funds and return monies. We also recommend requests for reimbursement are properly reviewed and approved.
May 14, 2008

Stephen M. Eells
Assistant State Auditor
Office of the State Auditor
P.O. Box 067
Trenton, NJ 08625-0067

Dear Mr. Eells:

We have received the results of your audit of Rutgers, the State University of New Jersey. The University undertakes considerable effort to ensure that all expenditures are reasonable and properly recorded. The University receives funding from the state, federal government and charitable donations in addition to the tuition and fee revenue received from our students. We take care to ensure that all regulations and/or restrictions are met in the use of all funds. We were pleased to work with your staff to help them understand the procedures for managing these multiple funding sources.

We have reviewed the findings in your report and would like to provide additional information and comments on steps that the University is taking to address them.

Vacation Policy

The University has been aware of the growth of the vacation liability. On October 25, 2005, the University community was notified that the University policy on carry-over vacation days would be strictly enforced. The policy states that at the end of the year no more than the maximum vacation allowance for one year may be carried forward into the next year. All employees were also directed that any accumulated days must be used by June 30, 2008 at which time any days in excess of the maximum vacation allowance would be forfeited. At the end of this fiscal year, each employee's vacation accrual will be reviewed and reduced as needed to comply with our policy.

Travel Expenses

In 2004, the University revised its travel policy. At that time, the Controller's Office also instituted an ongoing audit process to review travel and business expense reimbursements for compliance with this policy. We continue to review our processes to ensure that travel expenditures are reasonable, appropriate and in compliance with our policy.

The University also has arrangements with four travel agencies to obtain the best price available for transportation and other travel needs. Your finding noted twenty-nine air and rail fares, or less than 6% of the items tested, appeared to be unreasonably high. These rail and air fares were all booked through one of these agencies. When we investigated these we found that they were last minute trips that resulted in higher fares than if these trips had been arranged further in advance. We have reminded the department of the importance of proper planning for any travel arrangements.
The expenditures noted in your other travel related finding all related to the Texas Bowl game in Houston. These out-of-state bowl games are relatively new experiences for the University. The current University travel policy does not properly address expenditures for such an event that requires the team and coaches to be at the event almost a week before the actual game to participate in various events leading up to the game. The University is currently developing a policy that will detail the appropriate expenditures for these events.

**Petty Cash**

In July 2002, the University implemented the purchasing and accounts payable modules of the Oracle E-business Suite. The purchase and payment processes are now much quicker. As a result, departments are not as dependent on their petty cash funds to promptly acquire and obtain reimbursement for small purchases. Therefore, we agree with the recommendation to identify and close all inactive petty cash funds. Petty cash reimbursements are reviewed and approved prior to replenishment of the fund. Any inappropriate items are investigated. We will also review the policy, particularly the $25 limit on reimbursements, to ensure that this limit is still appropriate. All petty cash custodians will be notified of any changes and be reminded of the proper use of these funds. Please let me know if you would like any additional information.

Yours,

[Signature]

Stephen J. BiPaolo
University Controller