Rutgers, The State University of New Jersey
Allocation and Transfer of Resources Across Campuses

July 1, 2016 to June 30, 2017

Stephen M. Eells
State Auditor
The Honorable Philip D. Murphy  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Craig J. Coughlin  
Speaker of the General Assembly

Ms. Peri A. Horowitz  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of Rutgers, The State University of New Jersey, Allocation and Transfer of Resources Across Campuses for the period of July 1, 2016 to June 30, 2017. If you would like a personal briefing, please call me at (609) 847-3470.

Stephen M. Eells  
State Auditor  
December 6, 2018
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Scope

We have completed an audit of Rutgers, The State University of New Jersey, Allocation and Transfer of Resources Across Campuses for the period July 1, 2016 to June 30, 2017. Our audit covered the allocation of revenues and expenses across the university’s campuses.

The university’s primary mission is to provide instruction, research, public service, and healthcare. As presented in the university’s annual financial report, the major components of operating revenue were student tuition and fees (net of scholarship allowances), grants and contracts, and patient service revenues. Operating revenues and expenditures for fiscal year 2017 were $2.7 billion and $3.7 billion, respectively, resulting in a $1.0 billion operating loss. The major components of non-operating revenue were state appropriations (including state-paid fringe benefits) and governmental student aid. Non-operating revenues in combination with other revenues offset operating losses resulting in a year-end increase in net position of $181 million.

The university fully implemented the Responsibility Center Management (RCM) budgeting model by fiscal year 2016. RCM promotes financial responsibility at the unit level. Revenues are credited to the Responsibility Centers (RCs) that generate them and RCs pay their direct expenses as well as a share of indirect costs that are categorized into cost pools.

Objectives

The objective of our audit was to determine the reasonableness of the allocation of revenues and expenditures used to measure the flow of resources across campuses as contained in the university’s certified public report. We also tested for resolution of the significant conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in the “New Jersey Medical and Health Sciences Education Restructuring Act,” P. L. 2012 Ch. 45 and pursuant to 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, reviewed the audited financial statements of the university, and gained an understanding of the budget models utilized by the university and other documentation concerning funding for overhead costs that were available in the public domain. Provisions we considered significant were documented and compliance with those
requirements was verified by interview, observation, and through our verification of calculations utilized in the allocation of resources and costs across the campuses. We also read the minutes from the university’s board of governors, as well as resolutions issued by this board. In addition, we interviewed members of the central budget office as well as campus vice chancellors/chief financial officers (CFOs) to obtain an understanding of their internal controls regarding allocations.

Conclusions

Our audit determined the university’s methodology for the allocation of resources across campuses as contained in their certified report for fiscal year 2017 was reasonable. Under RCM, CFOs are active participants in the budget process and agree that RCM provides greater transparency. The CFOs are able to view all of the accounts and cost information for all the campuses, not just their own campus, thereby allowing them an opportunity to test the calculations, make adjustments, and vet the amounts before reaching a collaborative agreement among themselves and the central budget office that the revenues and expenditures have been equitably distributed among the campuses. We also determined the university resolved the significant conditions noted in our prior report.

In addition, we made an observation concerning campus fund balance disclosure.
Observation

Campus Fund Balance Disclosure

The financial report on the allocation and transfer of resources across campuses identifies whether a campus had a surplus or deficit at the end of the current period. Also identified in this report is the budgeting of funds available from the prior year for use by each campus in the current period. There is no indication of the effect the surplus or deficit has on the total funds each campus has available. The university stated that all balances, whether positive or negative, transfer back to the fund balance of each campus. To improve transparency in the allocation and transfer of resources across campuses, the report should contain the beginning and ending fund balance of each campus. If there is a deficit in a campus’s fund balance, the university should indicate the source of supplemental funding. The university stated they are working towards the inclusion of the beginning and ending fund balance for each campus in the report.