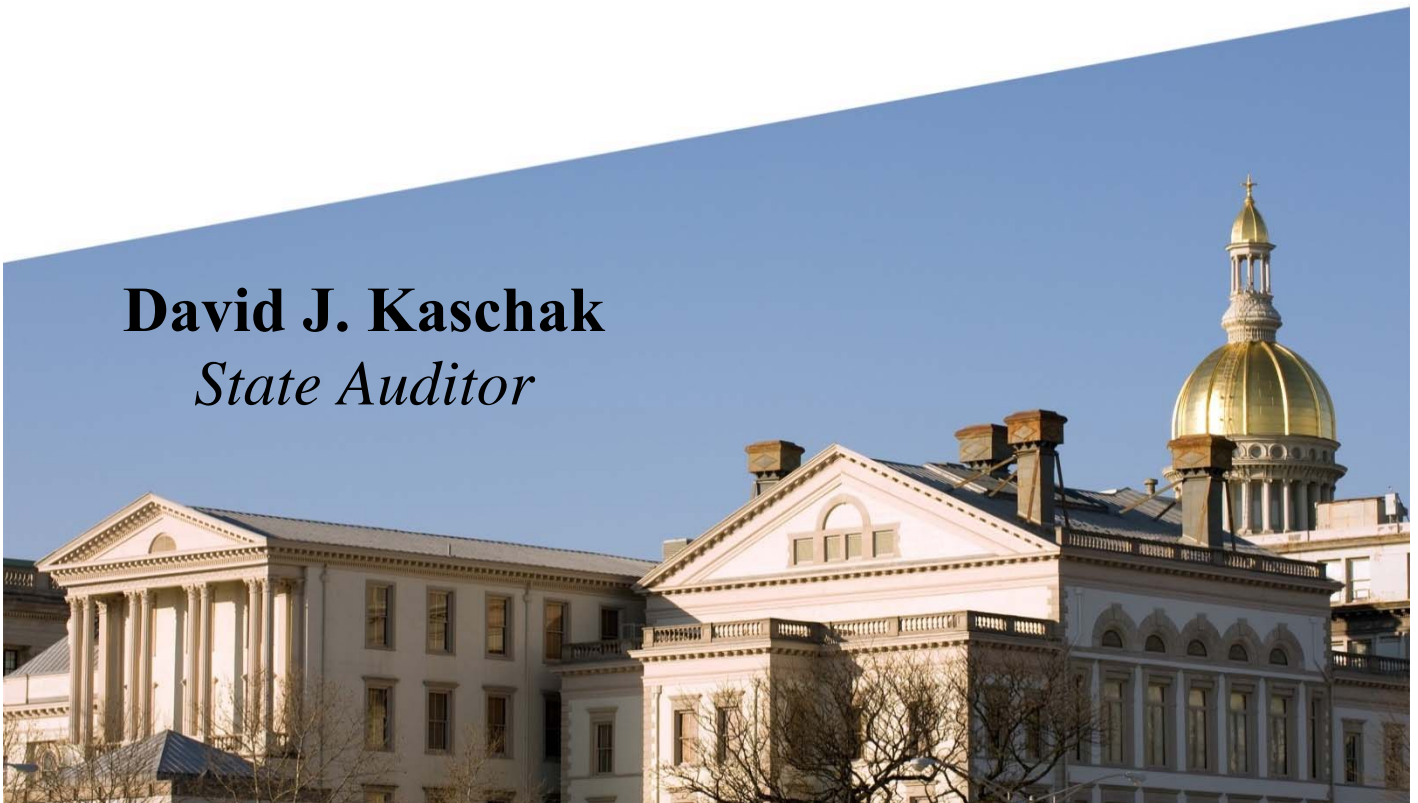


New Jersey Legislature
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OFFICE OF THE STATE AUDITOR

Stockton University

July 1, 2018 to January 31, 2022

David J. Kaschak
State Auditor



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OFFICE OF THE STATE AUDITOR
125 SOUTH WARREN ST. • P.O. BOX 067 • TRENTON, NJ 08625-0067
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OFFICE OF THE
STATE AUDITOR
609-847-3470
Fax 609-633-0834

David J. Kaschak
State Auditor

Brian M. Klingele
Assistant State Auditor

Thomas Troutman
Assistant State Auditor

The Honorable Philip D. Murphy
Governor of New Jersey

The Honorable Nicholas P. Scutari
President of the Senate

The Honorable Craig J. Coughlin
Speaker of the General Assembly

Ms. Maureen McMahon
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the Stockton University for the period of July 1, 2018 to January 31, 2022. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink that reads "David J. Kaschak".

David J. Kaschak
State Auditor
September 7, 2022

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Scope

We have completed an audit of Stockton University (university) for the period July 1, 2018 to January 31, 2022. Average operating revenues and expenditures from fiscal years 2019 through 2021 according to the annual audited financial reports were \$152.6 million and \$225.7 million, respectively. Average annual non-operating revenue provided by the state during this period was \$56.9 million. The university had approximately 1,300 full-time equivalent (FTE) positions and approximately 9,000 FTE enrolled students in fiscal years 2019 through 2022. Our audit did not include transactions of the university's component units: the Stockton University Foundation, Stockton Affiliated Services, Inc., or the National Aviation Research and Technology Park, Inc.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the university's programs, were reasonable, and were recorded properly in the university's accounting system.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in 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 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, the administrative code, and policies of the university. Provisions we considered significant were documented, and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We also read the reports of other auditors and minutes of the university's board of trustees, reviewed financial and enrollment trends, and interviewed university personnel to obtain an understanding of the university's programs and the internal controls. In order to achieve our objectives, we performed various tests and analyses, as we determined necessary. Additional detail regarding our methodology and work performed can be found in the Appendix, as well as in the finding section when testing resulted in a reportable condition.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions on our audit objectives, as well as internal controls and compliance. Sample populations were sorted, and transactions were judgmentally and randomly selected for testing. Because we used a nonstatistical sampling approach for our tests, we cannot project the results to the respective populations.

Data Reliability

We assessed the reliability of general ledger revenue and expenditures data obtained from the university's enterprise resource planning (ERP) system by reconciling it to the university's audited financial statements. We also assessed the reliability of transaction-level employee earnings data from the ERP system by reconciling it to the general ledger expenditures data. We determined that the data were sufficiently reliable for the purposes of this report.

Conclusions

We found that the financial transactions included in our testing were related to the university's programs, were reasonable, and were recorded properly in the university's accounting system. In making these determinations, we noted certain internal control weaknesses meriting management's attention regarding employee health and dental benefits, faculty overload and adjunct faculty compensation, temporary employment service employees, and procurement.

Employee Health and Dental Benefits

Controls over the cancellation of benefits and recovery of employee contributions during unpaid leaves of absence can be strengthened.

Enrollment Errors

Full-time employees of the university are eligible to participate in the state's Division of Pensions and Benefits, State Health Benefits Program (SHBP) for health (consisting of medical and prescription drug coverage) and dental benefits. Financing for the premiums is provided to the SHBP through state appropriations and offset by required employee contributions. The SHBP relies on the university to ensure only eligible employees are enrolled and to collect the required employee contributions. Certain part-time employees are eligible to enroll in the SHBP provided they pay the full cost of premiums.

The university had 1,116 active employees enrolled in health and/or dental benefits according to the June 2020 enrollment report from the SHBP. We compared that report to university payroll records from the same time period and identified three individuals who were enrolled but were not contributing toward their coverage, and noted the following errors:

- One individual separated in June 2015 but was still enrolled in health and dental benefits. The university was able to terminate this individual's coverage retroactively to an effective date of June 1, 2019. Health and dental premiums during the period of ineligibility for this individual were \$41,277.
- Another individual retired in July 2011 but was still enrolled in dental benefits as an active employee. This individual's coverage was later terminated with an effective date of June 1, 2020 after we brought it to the university's attention. Dental premiums after the employee had retired were \$4,139.
- A third individual had waived medical coverage in October 2016 but was still enrolled in prescription drug coverage. No contributions were deducted from the employee's pay and coverage continued until January 1, 2021. Prescription drug premiums during the period in which the employee made no contributions were \$24,155.

The human resources office manually performs quarterly reconciliations between the SHBP reports of enrolled employees and university records. Manually performing this process can be cumbersome as there are over 1,000 university employees with SHBP coverage. Inaccuracies in SHBP enrollment can result in individuals receiving coverage without making their required contributions and could lead to increased administrative fees and claims paid by the state for individuals who are no longer eligible.

Unpaid Leaves of Absence

Employees on unpaid leave of absence are required by SHBP guidelines to remit their regular contributions to continue benefit coverage. We noted five individuals were on unpaid leave of absence during June 2020. We requested documentation indicating the five individuals made their required contributions and found that only one had done so. The remaining four individuals were contacted subsequent to our inquiry and have either paid in full or agreed to repayment plans.

We judgmentally selected two additional pay periods (one in fall 2019 and one in fall 2020) to verify whether individuals on unpaid leaves of absence made their required contributions. We identified an additional six individuals enrolled in the SHBP while on unpaid leave, with four of the six individuals not making reimbursement payments until 3 to 21 months following their return from unpaid leave. All six have now either remitted their contributions in full or part. The university did not have adequate controls in place to ensure individuals on an unpaid leave of absence remitted their contributions toward the cost of SHBP coverage in a timely manner. Delays in the collection of employee contributions can hinder the university's ability to recover these amounts on behalf of the SHBP.

Recommendation

We recommend the university perform quarterly reconciliations between SHBP enrollment reports and its records electronically, rather than manually, to more accurately detect errors. We also recommend the university improve its monitoring of individuals on unpaid leave to ensure prompt collection of required contributions.



Faculty Overpayments

The university should improve the accuracy of overload and adjunct compensation.

The metric used to quantify faculty and adjunct faculty workload is teaching credit hours (TCH). The basic academic year workload for a full-time faculty member is 24 TCH. Full-time faculty who work in excess of the required 24 TCH receive overload compensation at a rate specified in the collective bargaining agreement. Adjunct faculty are compensated for the number of TCH earned at the adjunct rate specified in a separate collective bargaining agreement.

In the 2019-2020 academic year, 321 faculty had overload earnings totaling \$2.67 million and 401 adjunct faculty earned \$4.73 million. We reconciled payroll records to workload reports for 100 faculty members with the highest overload earnings and 100 adjunct faculty members with the highest adjunct earnings during this period, totaling \$1.81 million and \$1.86 million, respectively. We found two overpayments of \$11,800 and \$10,167 in fall 2019, both the result of errors in the calculation of their pay rate.

In fall 2020, 141 faculty had overload earnings totaling \$1.19 million, and 360 adjunct faculty earned \$2.97 million. We reconciled payroll records to workload reports for 100 faculty members with the highest overload earnings and 100 adjunct faculty members with the highest adjunct earnings during this period, totaling \$1.07 million and \$1.29 million, respectively. We found one overpayment of \$7,084 was the result of four TCH erroneously compensated as overload. We also found an overpayment totaling \$228 caused by a data entry error in an adjustment to a faculty member's workload.

Recommendation

We recommend the university improve internal controls by reconciling payroll and workload reports to identify errors and promptly make corrections to overload and adjunct compensation. We also recommend the university seek reimbursement for the \$29,279 in overpayments we identified.



Temporary Employment Service

Monitoring of Temporary Employment Service workers' hours should be improved.

The university uses temporary employment service (TES) workers to supplement its workforce. TES workers include student workers, seasonal employees, and other part-time, hourly workers. In calendar years 2019 through 2021, the university employed 2,328 TES workers with earnings totaling \$10.0 million. Per university procedure, TES workers are limited to a maximum of 944 hours per year.

Our review of TES payroll records identified 43 TES workers in 2019, 5 TES workers in 2020, and 15 TES workers in 2021 who exceeded the maximum allowable hours. The number of excess hours averaged 244.7 and ranged from 0.8 to 1,055.5. The university did not have an adequate system in place to centrally monitor TES hours and prevent workers from exceeding the maximum allowable hours.

The use of TES workers in excess of the maximum hours could indicate the need for permanent full- or part-time positions, which would qualify for enrollment in the state's pensions and benefits programs. The university may also become liable to provide fringe benefits for TES workers based on their work hours or length of service.

Recommendation

We recommend the university improve its monitoring of TES worker hours to identify individuals nearing the maximum allowable hours and prevent individuals from working in excess of this threshold.



Procurement

Controls over the use of purchase orders and purchase cards can be strengthened.

Purchase Orders

The primary method of procurement at the university is through purchase orders. The university paid 11,236 invoices totaling \$49,046,659 on purchase orders between July 1, 2018 and November 16, 2020. We randomly sampled 40 invoices totaling \$633,453 for goods and services procured through the use of purchase orders. This sample included 20 invoices for purchase orders that were above the bid threshold per NJSA 18A:64-54, 10 invoices between the quote and bid thresholds, and 10 invoices that were below the quote threshold. Our testing of these invoices disclosed the following issues:

- Six invoices (15 percent) totaling \$11,670 were confirming orders. A confirming order is a purchase of goods or services before a purchase order has been authorized. The use of confirming orders is a violation of university policy and increases the risk that a budget could be overspent because of unrecorded liabilities.
- Two invoices (five percent) totaling \$54,551 lacked proof of receipt. University policy requires the completion of an electronic acknowledgment of receipt before payments are processed.

Purchase Cards

As of August 2020, the university had 492 active purchase cards, which are issued to employees and departments for business purchases. In fiscal years 2019 through 2021, there were 48,710 card transactions totaling \$13.7 million. The university uses a web-based card management system to track and monitor all card spending. Support documentation and approvals are maintained on the web-based system.

We randomly selected 50 transactions totaling \$14,802 to test compliance with the university's card policy and procedures and noted the following weaknesses:

- Nine of 50 transactions (18.0 percent) totaling \$3,027 were not fully authorized in a timely manner. All transactions require signature by the cardholder, approver, and accountant. University policy requires these approvals be completed timely; however, the time frame in which they must be completed is not defined. We used a threshold of 40 days in our testing; this allows 30 days for the review of transactions and an additional 10 days for any issues to be resolved.
- Five of 50 transactions (10.0 percent) totaling \$481 did not have adequate support documentation. These included three transactions where the receipt was not itemized, one where the incorrect receipt was uploaded, and one where no business purpose was provided

to justify the purchase of coffee and donuts. Without an itemized receipt we could not determine if items purchased were allowable by policy.

- Three of 31 transactions (9.7 percent) totaling \$904 required pre-approval but did not contain evidence of prior authorization.
- Two of 48 transactions (4.2 percent) included New Jersey sales tax totaling \$5.80, which is not allowed by policy.

Strong internal controls over the use of purchase cards are necessary to mitigate the risk of improper or erroneous charges. A longer review period for transactions increases the risk that support documentation could be misplaced or erroneous charges are not credited back to the university.

Recommendation

We recommend the university strengthen controls to reduce its use of confirming orders and ensure proof of receipt is obtained before issuing payment for goods and services acquired through purchase orders. We also recommend the university define the period in which purchase card transactions must be fully reviewed and allocated. We further recommend the university perform a thorough review of purchase card transactions for compliance with its policy and procedures.



Appendix

Methodologies to Achieve Audit Objectives

As of June 2020, the university had 1,061 employees with health benefit deductions and 1,050 employees with dental benefit deductions. To determine whether health and dental deductions were calculated properly, we selected random samples of 50 employees with health benefits deductions and 25 employees with dental benefits deductions for testing.

Using SHBP enrollment data, we identified a total of 103 university employees whose coverage was terminated during between June 2019 and May 2020. To determine whether SHBP benefits were terminated timely upon separation from the university, we selected a random sample of 25 employees whose coverage was terminated during this time period for testing.

To identify potential ghost employees, we performed an analysis of 1,498 employees' earnings from July 2018 through December 2020 to identify any salaried employees who used no leave time during this period. We reviewed all 133 employees who were compensated for a minimum of 3,500 hours but charged no leave time during this time period to determine whether they were university employees.

The university made 1,369 supplemental earnings payments totaling \$1,099,585 between December 2018 and December 2020. To determine whether supplemental earnings payments were proper and adequately supported, we randomly selected 25 payments totaling \$14,690 for testing.

From July 2018 through December 2020, 1,493 student workers received 19,467 payments totaling \$3,937,011. We selected a random sample of 25 student worker payment transactions totaling \$4,465 to determine whether payments to student workers were made properly.

Between July 2018 and June 2020, 161 employees received lump sum payments totaling \$1,000,515 for unused leave time. To determine whether lump sum payments for unused leave time were calculated properly, we selected a sample of 15 separated employees with payments totaling \$318,869 for review.

The university made 2,809 miscellaneous earnings payments to 668 individuals totaling \$1,659,283 in calendar years 2019 and 2020. To determine the propriety of miscellaneous earnings payments, we judgmentally selected 15 payments totaling \$446,975. This sample included one payment for each of the 15 individuals with the highest miscellaneous earnings during calendar years 2019 and 2020.

In fiscal years 2019 through 2021 (as of February 24, 2021), the university had 6,853 direct pay transactions, which are payments to vendors or employees processed directly through the accounts payable department, totaling \$11,647,397. To determine whether direct pay transactions were processed properly, we selected a random sample of 21 direct pay transactions totaling

\$233,907 for review. The university issued 113 cash advances totaling \$185,882 for athletic team meals in fiscal years 2019 and 2020. We randomly selected 10 cash advances totaling \$16,476 to determine the propriety of cash advances for athletic team meals.

To identify potential related party transactions, we performed a match between vendor and employee addresses. This match identified 211 potential related party vendors with payments totaling \$393,069 in fiscal years 2019 through 2021 (as of February 24, 2021). We judgmentally selected the 17 vendors with the highest dollar payments, for a total of \$318,806, received during this time frame for further review to determine if they were improper.

To determine whether all members of the university's board of trustees properly submitted required conflict of interest forms, we requested and obtained copies of these forms from the New Jersey State Ethics Commission.

To determine the propriety of employee tuition waivers, we obtained waiver data from the university's ERP system. We identified 162 employees who received tuition waivers totaling \$1,867,687 between the summer 2018 term and the spring 2021 term. We randomly selected 10 employees with waivers totaling \$133,086 to determine whether they were eligible to receive the waiver, met the grade requirements, and were credited the correct amount.

To determine the propriety of dependent tuition waivers, we obtained waiver data from the university's ERP system. We identified 163 dependents with tuition waivers totaling \$2,669,915 between the fall 2018 term and spring 2021 term. We randomly selected 10 dependents with waivers totaling \$159,852 to determine whether they were qualified dependents of an eligible university employee, met grade requirements, and were credited the correct amount.

The university made 1,530 travel reimbursements totaling \$611,368 to employees in fiscal years 2019 through 2021 (as of February 24, 2021). We randomly selected 15 reimbursements totaling \$3,009 to review for validity.

Non-payroll expenditures from the first and second rounds of the Coronavirus Relief Fund (CRF) were \$2,998,461 and \$2,383,957, respectively. To determine whether non-payroll expenditures from the first round of the CRF were proper, we judgmentally selected 40 and randomly selected 10 non-payroll expenditures totaling \$1,698,294 to review. To determine whether non-payroll expenditures from the second round of the CFR were proper, we randomly selected 65 transactions totaling \$39,541 for review. In addition, to determine whether employee salary allocations to the first round of the CRF were proper, we randomly selected 15 employees with salary allocations totaling \$205,899 for testing. In total, 272 employees had salary allocations totaling \$2,623,985 to the first round of the CRF.

To determine whether expenditures from the Governors Emergency Education Relief Fund (GEERF) were proper, we judgmentally selected 40 and randomly selected 10 non-payroll transactions totaling \$1,518,844. Total non-payroll expenditures of the GEERF were \$1,584,460.

In fiscal years 2019 through 2021 (as of February 24, 2021), the university had 3,594 cash receipts totaling \$6,013,666. We randomly selected 25 cash receipts totaling \$11,553 to determine whether cash receipts were properly posted and deposited.

The university had 2,851 direct cash receipts totaling \$157,514,158 for fiscal years 2019 through 2021 (as of February 24, 2021). We randomly selected 25 direct cash receipts totaling \$41,418 to determine the accuracy of these transactions.





Division of Administration & Finance
Vice President and Chief Financial Officer

Ph: 609.652.4381

Fax: 609.626.3803

101 Vera King Farris Drive
Galloway, New Jersey 08205

www.stockton.edu

STOCKTON UNIVERSITY

August 30, 2022

David J. Kaschak, State Auditor
Office of the State Auditor
125 South Warren Street
P.O. Box 067
Trenton, NJ 08625-0067

Re: Stockton University Audit Responses

Dear Mr. Kaschak:

We are in receipt of the draft audit report prepared by the New Jersey Legislature, Office of Legislative Services, Office of the State Auditor for Stockton University for the period July 1, 2018 to January 31, 2022. We appreciate the audit team's thorough review of our financial transactions and their recommendations for internal control enhancement. The University's responses to the recommendations are detailed below.

Employee Health and Dental Benefits

Audit Recommendation

We recommend the university perform quarterly reconciliations between the State Health Benefits Program (SHBP) enrollment reports and its records electronically, rather than manually, to more accurately detect errors. We also recommend the university improve its monitoring of individuals on unpaid leave to ensure prompt collection of required contributions.

University Response

The Office of Human Resources (OHR) has implemented several new controls to ensure timely cancellation of employee health and dental benefits. Information Technology Services (ITS) assisted OHR with the creation of a "Last Day Worked Report". OHR reviews this report on a daily basis and confirms that every individual listed on the report is properly terminated in the State's Benefitsolver health benefits portal. Additionally, OHR is working with ITS to electronically reconcile the monthly alpha-listing health benefits report from the Division of Pensions to Banner's medical and dental deductions. This reconciliation would be performed on a bi-monthly basis and would reveal discrepancies caused by employee separations or changes in health plans/coverage. Finally, OHR will continue to review the SHBP "Monthly Change Report" to ensure that State data matches deductions in Banner.

OHR has made improvements to its monitoring of individuals on unpaid leave to ensure prompt collection of required contributions. Language in unpaid leave of absence letters to employees was modified to stress the importance of paying bi-weekly medical and dental deductions during the first 12 weeks of their unpaid leave of absence. Further, the date that benefits would be terminated by Stockton, and COBRA issued, if their unpaid leave of absence were to extend beyond 12 weeks is clearly identified. Additionally, OHR will send bi-weekly reminders identifying the amount due to individuals on unpaid leave and conduct a review of incoming payments. If an employee terminates employment after an unpaid leave of absence with a balance due, letters will be immediately sent to request payment and a reminder included that unpaid balances will be referred by Stockton to the SOILS Program through the NJ Division of Taxation.

Faculty Overpayments

Audit Recommendation

We recommend the university improve internal controls by reconciling payroll and workload reports to identify errors and promptly make corrections to overload and adjunct compensation. We also recommend the university seek reimbursement for the \$29,279 in overpayments we identified.

University Response

The identified faculty overload and adjunct overpayments occurred prior to the University's implementation of the Faculty Load and Compensation (FLAC) module in Banner. FLAC bridges the gap between the Banner Student and Banner Human Resources modules to deliver a comprehensive path to assigning and compensating faculty workload. Each term, ITS provides a list of the jobs from the FLAC module to the Provost's Office for confirmation of total compensation and pay periods. Additionally, faculty members can acknowledge their workload and compensation within the system.

The University sought reimbursement for both the faculty overload overpayments and the adjunct overpayments. The faculty overload overpayments totaling \$7,312 were successfully recovered. Both adjunct faculty members were notified of their overpayments and repayment was requested. The adjuncts are not currently working at Stockton and have been flagged in Banner in the event that repayment is not made, and they seek to teach at some point in the future.

Temporary Employment Service

Audit Recommendation

We recommend the university improve its monitoring of TES worker hours to identify individuals nearing the maximum allowable hours and prevent individuals from working in excess of this threshold.

University Response

OHR has implemented new processes to monitor TES worker hours. Each pay period, a report is run to identify TES workers who have exceeded 700 hours. OHR then issues an email notice to

the TES worker's manager reminding them of the 944-hour limit for temporary employees. Subsequent reminders are issued to the TES worker's manager as the TES approaches 944 hours. Going forward, OHR will update the language of the reminder to reference University Procedure 6104 – *Part-Time Employment of Staff Members* and indicate that noncompliance is subject to discipline. Additionally, Divisional Executives will be included on all notices going forward and held accountable for compliance.

Procurement

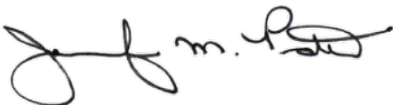
Audit Recommendation

We recommend the university strengthen controls to reduce its use of confirming orders and ensure proof of receipt is obtained before issuing payment for goods and services acquired through purchase orders. We also recommend the university define the period in which purchase card transactions must be fully reviewed and allocated. We further recommend the university perform a thorough review of purchase card transactions for compliance with policy and procedures.

University Response

The University will continue to offer Procurement training to the University community with a special emphasis on purchase orders and purchase cards. Additionally, Disbursement Services and Procurement related policies and procedures will be reviewed and updated to address confirming orders, receiving, and timely review of purchase card transactions. Finally, the University will implement a semi-annual review of purchase card transactions to ensure compliance with policy and procedures.

Sincerely,



Jennifer M. Potter, CPA, MBA
Vice President for Administration & Finance and Chief Financial Officer