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New Jersey City University

July 1, 2002 to October 31, 2004

**Richard L. Fair
State Auditor**

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New Jersey State Legislature

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Acting Governor of New Jersey

The Honorable Richard J. Codey
President of the Senate

The Honorable Albio Sires
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the New Jersey City University for the period July 1, 2002 to October 31, 2004. If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in cursive script, appearing to read "Richard L. Fair".

Richard L. Fair

State Auditor

April 13, 2005

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New Jersey City University

Scope

We have completed an audit of the New Jersey City University for the period July 1, 2002 through October 31, 2004. Our audit included operating expenses accounted for in the University's financial statements, except for those activities involving auxiliary enterprises, student aid, and depreciation. Annual operating expenses of the University were \$90.8 million and \$98.8 million during fiscal years 2003 and 2004, respectively.

The control, conduct, management, and administration of the University are vested in the board of trustees of the University. The University's accounting system is not part of the state's centralized accounting system. The New Jersey City University is dedicated to urban programs designed to meet the complex economic, social, and educational problems of the urban metropolitan area. During the audit period, the average enrollment total was approximately 8,000 students.

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 accounting system.

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 University.

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, examined the independent auditor's report, reviewed financial trends, and interviewed University personnel to obtain an understanding of the University and its internal controls.

Statistical and nonstatistical sampling approaches were 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 randomly or judgmentally selected for testing.

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 accounting system. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management's attention.

Information Technology Systems

During the first quarter of 1998, an external audit of the University MIS and Computer Services Department was conducted and it concluded an urgent need for the revision of its technological infrastructure by replacing rather than repairing the system. A Technology Coordinating Team was created and conducted a review of current products on the market and recommended the purchase and deployment of new system software. In November 1998 the University's Board of Trustees approved a waiver of advertising; authorizing the University administration to license the selected vendor's Student Administration, Human Resources, Financial modules and Workstation Access, and to purchase six years of support services for approximately \$2 million.

Change orders and vendor bills lack adequate detail.

In 2002, the University solicited bids from 23 vendors to act as the primary contractor for the delivery of the professional services required to implement these software products. The University selected the bid from the software vendor based on factors considered critical and relevant for the successful planning, implementation, and continued operations of its vendor's systems. The bid amount indicated that the entire project could be implemented for approximately \$4 million. This bid contained detailed information as to the implementation costs of each module. However, subsequent change orders and vendor invoices did not contain this level of detail. As of October 2004, the cumulative payments to the vendor for the implementation of the software totaled \$9 million. No projection has been made as to how much will be needed to complete the project.

Project monitoring needs to be improved.

The project has not been effectively monitored. The lack of sufficient details hinders management in properly evaluating the status of the project or

determining the propriety of amounts billed by the vendor.

Recommendation

Management should monitor the project more closely. The status of the project should be determined and a work plan developed to identify additional resources required and the remaining time frame for completion of the project. Management should require that the vendor provide detailed invoices where charges can be identified for each component of the project.

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Payroll and Time Reporting

Internal controls over timekeeping, and updating and maintaining employee time and leave records need to be strengthened.

The University has approximately 900 employees and annual regular payroll expenditures of \$47 million. Administrative and clerical employees report their time on exception basis time sheets that only record time taken off. Employees in operational departments such as maintenance, housekeeping, and security report their time on the exception basis time sheets and additional sign-in and sign-out time sheets with details of the hours worked each day. We sampled records for 22 faculty and 50 non-faculty employees selected at random.

Our review of time sheets and annual leave records for the 50 non-faculty employees (3,384 hours), disclosed that eight payments were not properly supported by time sheets. In one case, nine hours were unsupported by detail entries on the time sheet. Another employee had a time sheet available for only one of the two weeks covering the pay period. The remaining six employees did not have time sheets on file. As a result of these deficiencies 499 of the 3,384 hours paid (14.74%) cannot be supported. We also identified incorrect postings of leave time taken for five employees totaling 40.5 hours.

Our review of leave records for the 72 employees

tested disclosed additional errors. Leave records for twenty employees contained various errors including the incorrect prorating of leave and the improper relief of negative balances for sick and/or vacation

time incurred in a prior year with the reduction of current year's allotments for such leave. These errors resulted in the misstatement of 100 days for the leave record balances of the twenty employees as of December 31, 2003. Further analysis of the errors relating to leave earned by sample employees during 2003 indicated that 53.5 days out of 2,029 days were incorrect, or 2.64 percent.

The failure to post 40.5 hours of leave time taken from employees' time sheets to their annual leave records results in an error of \$260,943 when applied to the total payroll population of regular hours for non-faculty employees. The impact of the improper calculation of leave time earned for employees during 2003 results in an error of \$168,500 when applied to the total payroll population of leave time for all employees receiving such benefits.

There is insufficient review of the annual leave records to detect posting and calculation errors and correct them in a timely manner. The lack of consistent usage of time sheets and/or the retention of such documentation at many of the University's departments increases the risk that employees may not work the appropriate number of hours to satisfy their biweekly workload requirements, and that such errors may not be detected.

Recommendation

The University should strengthen its review and reconciliation procedures for both timekeeping and leave record maintenance to reduce the likelihood of erroneous payments and misstatements of leave time. The University should consider uniform procedures for timekeeping to provide for the consistent recording of hours worked by employees.



Purchase Card Program

Significant improvements are needed to ensure the validity of purchase card transactions.

The University established the purchasing card (P-card) program to provide a more convenient and efficient method of procuring goods and services, and to reduce the costs associated with initiating and paying for those purchases. During fiscal year 2004, P-card purchases totaled \$338,000 by 26 cardholders. Subsequent to our review, the University expanded the number of cardholders from 26 to 92. Our review of one month of transactions noted that none of them were subjected to independent review to verify that purchases were appropriate and supported by adequate documentation as required by University policy. Documentation was either missing or inadequate for 24 percent of the transactions tested. Although the policy states that only the cardholder whose name is embossed on the purchasing card is authorized to use the card, we noted that there were multiple users for twelve of these cards.

Recommendation

The University should enforce its current policies and procedures and designate an independent individual to review P-card transactions for reasonableness and propriety prior to payment.



Fixed Assets

Fixed asset records are inaccurate as to completeness and location of assets.

The University has established policies and procedures for a fixed asset inventory system which will safeguard assets from loss or unauthorized use, and which will also help to fix responsibility for particular assets.

Our sample test of 22 items selected from the records revealed that 13 items could not be located. We were told that two items were discarded, but were not removed from the records, and seven computers were being used off-campus by professors. There was no documentation for these transactions. In addition,

there were no periodic counts of fixed assets. The

lack of adequate fixed asset records diminishes internal control and may impact on the University's ability to safeguard assets.

Recommendation

We recommend the University establish a policy for the assignment of any assets that are utilized offsite. We further recommend that management review and perform periodic counts of fixed assets, as well as document the resolution of any discrepancies.

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2039 Kennedy Boulevard
Jersey City, New Jersey 07305-1597

Office of the President
201-200-3111

March 23, 2005

New Jersey State Legislature
Office of Legislature Services
Office of the State Auditor
Attention: Richard L. Fair
125 South Warren Street
P.O. Box 067
Trenton, New Jersey 08625-0067

RE: New Jersey City University Audit Report

Dear Mr. Fair:

Enclosed are responses to the audit findings and recommendations outlined in the New Jersey City University audit report relating to the audit performed for the period July 1, 2002 through October 31, 2004.

If your office requires additional information regarding the enclosed responses, please feel free to contact Aaron Aska, Associate Vice President for Finance and Controller, at (201) 200-3041.

Sincerely,

A handwritten signature in cursive script that reads "Carlos Hernández".

Carlos Hernández, Ph.D.
President

Enclosure

NEW JERSEY CITY UNIVERSITY
Responses to State Audit Report
Page 1 of 3

Findings & Recommendations: Information Technology Systems

Management's Response

In 2002, New Jersey City University ("NJCU" or the "University") awarded a contract to Software Company, with respect to the implementation of licensed enterprise software. The total initial award was \$4.9 million.

Consulting for the fit/gap analysis was awarded on a fixed price basis. All other consulting was awarded on a time and material basis, at a burdened rate that included a fixed percentage for out-of-pocket expenses. The engagement was governed by a Consulting Services Agreement signed by both parties on June 3, 2003, and Statements of Services ("Statements") were executed for each of the deliverables described above. A preliminary scope document was also agreed to at this time. Since the Statements for these consulting services were on a time and material basis, this scope document listed the target goals for the project that NJCU and the Software Company identified at the project's inception.

On the basis of information obtained through the fit/gap analysis and the project planning and preparation phase, as well as during the system integration project, it became evident that additional effort, time, and expansion of the scope of work were necessary. All of these modifications were authorized through change requests or amendments to existing Statements. The total amount awarded through change requests and amendments was \$4.3 million.

The total amount awarded through the initial award and through change requests and amendments is \$9.3 million. This project has concluded, and all expenses invoiced were \$9.2 million.

The Auditor's Report includes in its assessment of total project costs several expenses that were outside the scope of the RFP to which Software Company and the other vendors responded. These costs should be removed from the auditor's assessment of total project costs. These are:

- Maintenance fees associated with software licenses: \$384,371
- Training credits (pre-project): \$166,850
- Travel expenses for software company instructors: \$11,798
- Pre-project consulting: \$10,679
- Duplicate payments for which the University received credit: \$130,120

These payments totaling \$703,818 were not part of the project and should not be considered as cost overruns. In addition, several of the purchase orders issued for the project were not fully expended.

Although the actual project expenditures exceeded the initial estimate by approximately \$4.3 million, the need for these changes was rigorously evaluated and the project progress diligently monitored by NJCU using the following techniques:

- Regular status reports were submitted by the Software Company Project Manager. These reports assessed the project's current status, identified project milestones and accomplishments, and major issues and concerns.
- Status reports were frequently provided to the Vice Presidents. Both the NJCU and Software Company Project Managers reported monthly to the Vice Presidents at the Information Technology Steering Committee meetings, and on an ad-hoc basis as necessary.
- Project leads held regular meetings, at which progress against the project plan was monitored and the project plan was modified with additional tasks and/or time, as appropriate.
- Team meetings were held regularly, during which the system-specific project plan was reviewed and evaluated, and issues were resolved.

Throughout the project, the NJCU Project Manager was in the same physical location as the consulting staff, and was able to maintain constant oversight throughout the completion of their responsibilities.

At the suggestion of the auditors, NJCU has requested and received additional detail on the activities of the consultants for each invoice billed. This practice will be implemented for all future engagements.

Findings & Recommendations: Payroll and Time Reporting

Management's Response

The University agrees that consideration of uniform procedures for timekeeping can strengthen the review and reconciliation procedures for both the timekeeping and leave record maintenance. Uniform procedures will provide for the consistent recording of hours worked by employees. In an effort to strengthen our current procedures, the human resources function of the University will perform the following:

- Review with all department supervisors the leave record procedure to ensure they are aware of their responsibility of verifying the information on the leave record before approving the respective record;

- Recommend to department supervisors that although not required, using time sheets in departments with more than five employees should be strongly considered; and
- Implement by FY '07 a new Software Program time and attendance system.

The University anticipates that the implementation of the new Software Program will strengthen the internal controls relating to the time and attendance reporting. The new system is anticipated to enable the human resources function to be more proactive in tracking and monitoring employee attendance, as well as transition the University away from the current "exception" method of time and attendance reporting towards an "accountable" method. In addition, many of the processes that human resources function currently performs manually will be automated resulting in less errors and a more efficient timekeeping system for our employees.

Findings & Recommendations: Purchase Card Program

Management's Response

At this time, the University has 26 cardholders for the PCard program and has not expanded the number of cardholders. NJCU is currently in the process of implementing a new purchase card program with PNC bank that will offer on-line approvals and increase accountability and internal controls relating to this process. In addition, in January 2005 the University has implemented, upon your recommendation, an audit plan, in which transactions and department records will be randomly sampled, on a rotating basis, for compliance with internal controls.

Findings & Recommendations: Fixed Assets

Management's Response

In an effort to strengthen the policies and procedures for the fixed asset inventory system, the University will perform the following:

- Enhance the communication of the established policies and procedures to the University community, stressing the importance of compliance with the policy;
- Request the University community to identify the physical inventory on hand and compare the department's record with the fixed asset sub ledger and general ledger system;
- Perform physical counts for those departments with physical inventory discrepancies identified as a result of the previous action step; and
- Develop a rotating schedule to complete a fixed asset physical inventory count of the entire University by FY '06.