



**New Jersey State Legislature
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Office of the State Auditor**

Office of the Secretary of Higher Education

July 1, 2011 to April 30, 2014

**Stephen M. Eells
State Auditor**

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Enclosed is our report on the audit of the Office of the Secretary of Higher Education for the period of July 1, 2011 to April 30, 2014. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells
State Auditor
September 30, 2014

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Scope

We have completed an audit of the Office of the Secretary of Higher Education (OSHE) for the period July 1, 2011 to April 30, 2014. Our audit included financial activities accounted for in the state's General Fund. The OSHE also administers the Building Our Future Fund; however, the fund did not have any financial activity until the final week of our fieldwork and therefore we excluded it from our scope.

The Office of the Secretary of Higher Education was created as a result of the Reorganization Plan, No. 005-2011 which abolished the previous Commission on Higher Education. In, but not of, the Department of State, the position of Secretary holds cabinet level status. The OSHE has statewide responsibility for planning, policy development, advocacy, licensure, and the administration of several grant programs. However, it should be noted that the OSHE does not administer certain significant student assistance programs including the New Jersey Tuition Aid Grant and the New Jersey STARS programs. These programs, among others, are administered by the New Jersey Higher Education Student Assistance Authority (HESAA) which will be the subject of a separate audit engagement. The OSHE expenditures averaged \$47.6 million annually during our audit period. Grants-in-aid payments to institutions of higher education (colleges) comprise the major portion of expenditures. Payments to the colleges primarily funded the following grant programs.

- Educational Opportunity Fund (EOF) is a state program that provides academic and financial support and service to educationally and economically disadvantaged students. It provides a supplement to cover the costs of college not covered by the Tuition Aid Grant program. During our audit period this program's annual expenditures averaged \$38.7 million.
- Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) is a federally funded program to provide low-income students, in grades 6-12, with early intervention activities to assist in becoming ready for postsecondary education. There is also a scholarship component of this program for eligible students. The program's average annual expenditures were \$3.7 million.
- College Bound is a state funded program to address educational needs of at-risk youths in grades 6-12 located within "SDA Districts". Program goals include ensuring the students complete their secondary education and attend college. This program serves as the state matching portion of GEAR UP and annual expenditures averaged \$1.8 million.
- College Access Challenge Grant Program (CACGP) is a federally funded program with the goal of educating students and parents about college financing and preparation options. During our audit this program averaged \$1.7 million in annual expenditures.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the OSHE's programs, were reasonable, and were recorded properly in the accounting system. An additional objective was to determine whether the OSHE was meeting its administrative responsibilities for the aforementioned grant programs.

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 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, the administrative code, circular letters promulgated by the Department of the Treasury, and the policies of the OSHE. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions at selected colleges and the New Jersey Higher Education Student Assistance Authority (HESAA). We also read the budget messages, reviewed financial trends, and interviewed OSHE, college, and HESAA personnel to obtain an understanding of the programs and internal controls.

A nonstatistical sampling approach was used. Our samples of transactions were designed to provide conclusions about our audit objectives, as well as internal controls and compliance. Transactions were judgmentally selected for testing. Our sample of colleges that received grant funds was judgmentally selected to include state, county, and private colleges.

Conclusions

We found that the financial transactions included in our testing were related to the Office of the Secretary of Higher Education'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 meriting management's attention. The Office of the Secretary of Higher Education needs to strengthen its administration of the grant programs through increased monitoring of the information reported by the colleges. In addition to enhanced reviews of the documentation supporting expending of grant funds by the colleges, the OSHE should provide better guidelines regarding allowable costs and ensure applicable program boards are in compliance with the New Jersey Administrative Code. We also found that the OSHE held federal scholarship funds that should have been disbursed to low-income students.

Program Monitoring

Increased monitoring of college-provided reports is needed.

The Office of the Secretary of Higher Education (OSHE) has the responsibility to administer several grant programs comprised of state and federal funding. Administering a grant includes monitoring the use of those funds to ensure compliance with the grant regulations. Our audit found monitoring of the grants by the OSHE is limited to obtaining interim and final expenditure reports from the colleges. The reports submitted by the colleges are certified by their program director and its President or official designee. Our sample testing at six colleges found that the reports submitted by the colleges contained a variety of reporting errors including expenditures overstated, misclassified, miscalculated, or without adequate supporting documentation. Total grant expenditures tested on the reports were \$3 million. The following are examples of errors noted.

- One college overreported the matching funds provided by \$25,430. The program required a 50 percent match of funding by the college; however, the actual match provided by the college was only 37 percent. Another college reported expending \$27,194 in matching funds for the program, but provided invoices for only \$411. A third college overreported matching funds provided and as a result of our review submitted a revised final report including a refund for \$3,615.
- At all of the six colleges sampled, we found food purchases misclassified as travel, consumable supplies, or professional services, with one institution reporting \$17,247 of food purchases as “Other Services – Academic Achievement”.
- The fringe benefit cost allocation rate utilized by one college was greater than their actual policy rate, which resulted in a \$17,000 overcharge to a grant.
- The New Jersey Administrative Code allows participating colleges to establish a Program Advisory Board (PAB). The size and method of selection of the PAB is at the college’s discretion. We found that three of our sampled colleges without a PAB charged the Education Opportunity Fund program for PAB expenses totaling \$7,322 and \$4,080 for fiscal years 2012 and 2013, respectively. In addition, three colleges without a PAB included PAB expenditures as part of their required matching funds, totaling \$3,051 for fiscal year 2012.
- New Jersey Administrative Code requires a waiver be obtained if the Equal Opportunity Fund (EOF) Director is not working full time on the program. We found one college that had two separate contracts with two EOF Directors that were not working full time and waivers had not been obtained. One director was working 60 percent of the time on EOF and the other was working 85 percent. Their full salaries were reported as matching funds on the final expenditure report.

The lack of monitoring by the OSHE increases the risk of improper reimbursements and reduces the usefulness of the reports for program oversight and decision-making.

Recommendation

We recommend the OSHE monitor and review the information on the reports submitted by the colleges to ensure compliance with the program guidelines. In addition, we recommend that the OSHE provide training to college management with regards to maintaining records of receipts and disbursements. We also recommend that the OSHE verify that EOF directors not working full time on the program, obtain the required waivers and are allocating their costs correctly.



Questionable Costs

Greater detailed guidelines would reduce the incidence of questionable costs.

The Office of the Secretary of Higher Education did not review the grant expenditures associated with the reports submitted to ensure the funds were spent effectively, in compliance with state policies, and were related to the objectives of the program. In addition, there is a lack of detailed guidance on allowable costs, resulting in questionable expenditures. We tested the four grant programs at the six sampled colleges and found costs within each program that did not appear to be an effective use of grant funds.

- Excess instructional materials including calculators, flashdrives, and backpacks totaling \$15,698 were purchased for one program of which \$6,075 could not be located during our visit. The college did not maintain an inventory of items purchased.
- The GEAR UP program provides services to parents including workshops, information on college curriculums, and financial aid. They also provide for college field trips, volunteer events, and award ceremonies. One sampled college expended \$6,000 of program funds on a bus trip for parents to Atlantic City and on a lunch cruise on the Hudson River. The college was not able to provide any justification for how these excursions met the program's criteria.
- The Educational Opportunity Fund (EOF) seeks to maximize educational opportunities for EOF students by providing direct program services designed to promote degree completion. We found one college took 42 students on a tour of Philadelphia's Chinatown costing \$1,475 and 51 individuals on the New York Harlem Heritage Tour, including lunch, costing \$2,500. There was no documentation to correlate these trips with the objective of the EOF.
- A prior year's credit balance of \$2,400 at a resort was given to the college through resort gift cards which were then utilized for the purchase of food for students and staff on a subsequent trip. This equaled approximately \$40 per person, per day, for the two-day trip.

- We noted an award ceremony to be excessive. One college had a ceremony serving 80 people at a cost of \$7,394, (\$92 per person), while we noted other ceremonies costing \$31 and \$15 per person.

Recommendation

We recommend the Office of the Secretary of Higher Education provide more specific guidelines on allowable costs for the various grant programs to encourage more effective use of the program's funds. They should also perform reviews to ensure compliance with established guidelines.



Unspent Grant Funds

Unspent grant funds should be awarded to eligible students.

The Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) is a federally funded program that has several components, one of which is scholarships for students attending two-year and four-year colleges in New Jersey. Scholarship funds were placed in trust in a NJBEST account managed by an investment firm. Scholarship amounts are, at a minimum, the maximum Pell Grant for the academic year. The Office of the Secretary of Higher Education (OSHE) only gives scholarship funding to students who were previously awarded scholarships; no new students are receiving scholarships through GEAR UP. In February 2013, for the spring semester, 119 students received \$323,681 in scholarship funds. On March 31, 2013, the total investment account equaled \$3,491,826, of which approximately \$1,152,200 remains in the fund which was earmarked for students that are no longer receiving scholarships because of withdrawal or transferring out of state. The OSHE stated the \$1.15 million and any future excess funds will be returned to the federal government when the last eligible scholarship recipient completes their degree. According to the United States Department of Education, the funds should not be returned to the federal government, but should be awarded to additional students or other low-income students.

Recommendation

We recommend the Office of the Secretary of Higher Education award the unused portion of the scholarship funds to eligible students.



Educational Opportunity Fund Board of Directors

Board transparency needs improvement.

The Educational Opportunity Fund (EOF) is governed by a board of directors. Appointed by the Governor, the board sets policy; approves all necessary rules for program operation and student eligibility; and develops the annual budget request for the statewide program. For fiscal years 2012 through 2014, annual appropriations for the EOF were over \$38 million, including the administrative and student grants portion.

Per the New Jersey Administrative Code, the board shall annually review the state grant amounts for EOF students and make adjustments, if necessary. This includes the minimum and maximum semester and maximum academic year award ranges for full-time and part-time EOF students for each type of college. The board may place a college's EOF program on probation for failure to correct program deficiencies and can impose restrictions as it deems necessary. Our review of the EOF program included the board and noted noncompliance with the following EOF regulations.

Board Meetings

The EOF board did not provide adequate notice of meetings during our audit period as required in their bylaws and the Open Public Meetings Act. The Open Public Meetings Act establishes the right of citizens to attend meetings and have adequate written advance notice of all public meetings including the time, date, location, and proposed agenda. The notice is required to be posted in at least one public place and provided to at least two newspapers which shall be designated by the public body. Our review found that the required written advance notice was not done and the Secretary of State was not notified during our audit period as required. In addition, meetings were not held at a specific location, but rather through conference calls. The allocation of \$38 million in funding for this program was approved through conference calls each year.

Board Officers

The EOF board is to be comprised of two ex officio members and eight citizen members. Their bylaws state the board shall meet biennially in July to elect a new vice chairperson and install the new chairperson whom shall serve two-year terms. The chairperson is to preside at meetings of the board, serve as chief executive officer, appoint members of the board to committees, and establish the time and place of board meetings. In addition, the chairperson is required to provide written recommendations to the governor for replacement of board vacancies. We found the board has not elected a chairperson or vice-chairperson since 2006. In addition, the Governor's Office had not received any recommendations for replacements from the board. As of April 2013, there were only six citizen members listed as board members and the terms of several of those had expired up to six years previously. The Governor's Office was unaware of the status of the board members that no longer served and eight new citizen members were appointed in April 2014.

Board Actions

Resolutions regarding funding and program activities were approved during conference call meetings without a quorum. A quorum is half of the legally constituted board plus one (six members). In October 2012, the board held a conference call with only four board members in attendance, and approved a resolution to allocate remaining supplemental funds for central initiatives including training for counselors and EOF directors, support EOF conferences, and to hold an EOF student awards day. The board usually approves EOF funding amounts during the April meetings. The minutes of April meetings did not document board attendance and therefore we were unable to determine if the required quorum was present.

In addition to conducting the meeting without a quorum, we found that central initiative funds were allocated to a private college acting as a conduit of the board to disseminate the funding for the training, conferences, and the EOF students' award reception. This action taken by the board of directors, in effect, circumvented the Department of the Treasury Circular Letter controls by allocating the funds to an entity that is not required to follow state regulations.

Our review of the central initiative funds given to the private college noted the following.

- All six events during our review would have been in noncompliance with Circular Letters 11-05 and 12-14 which state that events exceeding \$5,000 require the approval of the Director of OMB.
- Funds were inappropriately expended on alcohol and additional rooms at conferences totaling \$2,237.

Recommendation

We recommend the Office of the Secretary of Higher Education (OSHE) ensure that the board complies with the Open Public Meetings Act and the bylaws of the board, including filling board vacancies and meeting quorum requirements. In addition, the OSHE should require recipients of board allocations to comply with state regulations for the expenditure of public funds.



Other Matters

Noncompliance with Memorandum of Understanding (MOU)

A memorandum of understanding between the Office of the Secretary of Higher Education (OSHE) and the New Jersey Higher Education Student Assistance Authority (HESAA) established specific HESAA reporting requirements. The annual report should include the number of students, parents, and guidance counselors served at each school, methodology for serving them, materials provided, topics presented, hours of service, and evaluation of impact.

The report provided by the HESAA included only the number of students, materials provided, and topics presented.

Security of Confidential Student Information

Student files are maintained as part of the College Access Challenge Grant documenting the student's eligibility through application and other confidential information specific and personal to the student. We found that at one college, students' files were taken home by a staff member. Upon our request for the files, the files were returned.

EOF Student Files

Recordkeeping and data collection are required by the New Jersey Administrative Code, including the colleges maintaining thorough academic and financial aid files on the Educational Opportunity Fund students. During our review of records at one college, we found the college created eight student files during our visit and an additional 8 of the 45 files we had requested were missing.

Recommendation

We recommend the Office of the Secretary of Higher Education (OSHE) monitor the reports submitted by the HESAA to ensure compliance with the MOU. In addition, we recommend the OSHE notify the colleges that no files containing students' confidential information be removed from the college grounds. We further recommend the OSHE provide training for college personnel on the proper maintenance of student eligibility files.





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September 25, 2014

Stephen M. Eells, State Auditor
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125 South Warren Street
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Trenton, NJ 08625-0067

Dear Mr. Eells:

I am writing in response to your September 8, 2014 correspondence regarding the audit of the Office of the Secretary of Higher Education (OSHE).

The Office of the Secretary of Higher Education (OSHE) was newly created by the Reorganization Plan 005-2011. The Plan transferred all duties of the former Commission on Higher Education to this new entity. Through much of the audit period, the OSHE's portfolio of responsibilities significantly increased while simultaneously undergoing staffing transitions and a reorganization to more effectively and efficiently implement new legislation and initiatives, as well as the traditional obligations of the agency. The revamped operation required retooling and strengthening the technology infrastructure and the development of new policies and procedures. This small dynamic agency is currently staffed at 16, up from 12, and seeks to reach its full complement of 22.

During this transformative period for the agency, enormous progress was made on major initiatives such as coordinating the implementation of the Building our Future Bond Act, eliminating the backlog of licensure petitions, working to create a statewide longitudinal data system, inter-agency and private sector collaborations to promote economic growth, and securing increased funding to support key programs aimed at enhancing higher education access and degree attainment.

The Office of the Secretary of Higher Education provides the following responses to the findings listed in the draft audit report for the period of July 1, 2011 to April 30, 2014 for your inclusion with the audit report to Governor Christie and the Legislature. OSHE is committed to the highest quality of service and accountability to New Jersey's citizens and is responsive to the audit findings. A plan is in place to correct any deficiencies before the June 30, 2015 fiscal year end.

Audit Finding/Recommendation

Program Monitoring

Recommendation:

We recommend the OSHE monitor and review the information on the reports submitted by the colleges to ensure compliance with the program guidelines. In addition, we recommend that the OSHE provide training to college management with regards to maintaining records of receipts and disbursements. We also recommend that the OSHE verify that EOF directors not working full time on the program obtain the required waivers and are allocating their costs correctly.

Response:

The Office of the Secretary of Higher Education will work with the Presidents' Council, the institutions and their sector based organizations to improve training of the institution-based financial staff. This training will ameliorate the reporting errors observed by the auditors. Agency and program staff turnover may have contributed to misunderstanding or misinterpretation of reporting guidelines. Once these trainings have been completed, the other issues, noted below, will be reduced or eliminated.

Questionable Costs

Recommendation:

We recommend the Office of the Secretary of Higher Education provide more specific guidelines on allowable costs for the various grant programs to encourage more effective use of the program's funds. They should also perform reviews to ensure compliance with established guidelines.

Response:

The Office of the Secretary of Higher Education, working with the NJ Presidents' Council, the institutions and their sector based organizations, will re-train program and financial staff on allowable costs. The OSHE currently provides regular and direct feedback to each of its programs on all documents submitted. In addition, the agency provides opportunities for program staff to attend US Department of Education sponsored trainings. Additional training will reinforce the importance of tracking and allocating costs properly so that all reports are complete and accurate.

Unspent Grant Funds

Recommendation:

We recommend the Office of the Secretary of Higher Education award the unused portion of the scholarship funds to eligible students.

Response:

The Office of the Secretary of Higher Education continues to work closely with its federal partners to ensure all grant funds are spent in accordance with grant program guidelines. OSHE

is actively engaged in funding scholarships consistent with the requirements established during the previous grant cycle.

Educational Opportunity Fund Board of Directors

Recommendation:

We recommend the Office of the Secretary of Higher Education (OSHE) ensure that the board complies with the Open Public Meetings Act and the bylaws of the board, including filling board vacancies and meeting quorum requirements. In addition, the OSHE should require recipients of board allocations to comply with state regulations for the expenditure of public funds.

Response:

The Office of the Secretary of Higher Education worked with the Appointments Secretary for the Governor's Office over a two-year time frame in revitalizing the Board. Presently, we have in place a full, effective, functioning EOF Board appointed by the Governor. It is in compliance with all relevant by-laws, rules and regulations.

Other Matters

Recommendation:

We recommend the Office of the Secretary of Higher Education (OSHE) monitor the reports submitted by the HESAA to ensure compliance with the MOU. In addition, we recommend the OSHE notify the colleges that no files containing students' confidential information be removed from the college grounds. We further recommend the OSHE provide training for college personnel on the proper maintenance of student eligibility files.

Response:

The Office of the Secretary of Higher Education staff noted the deficiencies and omissions in the annual report submitted by HESAA. Staff requested and obtained an amended report containing the required information.

All of the personnel in the Office of the Secretary of Higher Education and on the institutions' campuses are highly sensitive to the issues of privacy and confidentiality of student information. Staff will be reminded not to remove documents or electronic files with confidential information from the campuses.

The Office of the Secretary of Higher Education continues to work collaboratively with its partners at the colleges and universities in New Jersey to deliver programs and services of the highest quality and integrity to the students of New Jersey. While we value the autonomy our institutional partners, we also understand and believe accountability to the citizenry of our state is imperative. Therefore, the recommendations made will be reemphasized with our partners.

We believe that our responses address the findings and observations raised in the audit report. Should you require any further information, please do not hesitate to contact this office.

Sincerely,

A handwritten signature in black ink, appearing to read "Rochelle Hendricks", written in a cursive style.

Rochelle Hendricks
Secretary of Higher Education

c: John J. Termyna