

**STATE OF NEW JERSEY
OFFICE OF THE STATE COMPTROLLER**

**CONTROLS OVER COLLECTION, ALLOCATION
AND USE OF STUDENT FEES AT SELECTED
NEW JERSEY COLLEGES AND UNIVERSITIES**

**Philip James Degnan
State Comptroller**

**April 27, 2016
PA-29**

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BACKGROUND

Since 1986, State universities and colleges in New Jersey have had autonomy to determine tuition rates and other mandatory fees charged to students. According to *N.J.S.A. 18A:3B-6(c)*, these schools' governing boards have the power to set tuition and fees only after conducting a public hearing.

In addition to tuition, State universities and colleges charge their students mandatory fees. These fees are intended to offset the schools' expenditures for supporting various student services and activities. All enrolled students are required to pay these fees. Since each school is responsible for setting its own tuition and fees, the number and amount of mandatory fees vary.

This audit focused on mandatory fees charged by the following three State institutions of higher education: The College of New Jersey (TCNJ), Kean University (Kean) and William Paterson University (WPU). During Fiscal Year (FY) 2013, the State of New Jersey provided approximately \$95 million in appropriations to these three schools.

At all three schools, fees comprised a significant portion of the total cost of tuition and fees paid by full-time undergraduate students. While mandatory fees are intended to defray the cost of the schools' student services and activities, they represent approximately one-third of student bills, as shown in the chart below:

FY 2013 Tuition and Mandatory Fees per Semester (Undergraduate Full-Time)				
School	Tuition	Mandatory Fees	Total	Mandatory Fees as a Percent of Total
The College of New Jersey	\$5,051	\$2,300	\$7,351	31%
Kean University	\$3,463	\$1,838	\$5,300	35%
William Paterson University	\$3,599	\$2,311	\$5,910	39%

The following chart displays each school's enrollment, the number of mandatory fees charged to students and the amount of revenue those fees generated in FY 2013:

School	Enrollment	No. of Mandatory Fees*	2013 Fee Revenue
The College of New Jersey	8,432	7	\$30.2 million
Kean University	17,713	9	\$45.2 million
William Paterson University	13,644	9	\$41.1 million

* See Appendix A for mandatory fee names and descriptions.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

At the three selected schools, the objectives of our audit were to assess the adequacy of the policies and procedures governing the process for determining mandatory student fees, determine whether student fees are properly accounted for and monitored and determine whether student fee revenue is spent in accordance with its stated purpose. Our audit covered the period of July 1, 2011 to July 28, 2015, which was the date of our last exit conference. Our testing period covered FY 2012 and FY 2013.

To accomplish our objectives, we reviewed relevant laws and regulations, policies and procedures and financial reports related to mandatory fee activity. In addition, we reviewed internal controls and conducted interviews of employees at each of the three schools. We also verified payment records, invoices, payroll data and other supporting documentation related to mandatory fee expenditures from a random sample of transactions for FY 2012 and FY 2013 to ensure they were used for their stated purpose.

Our testing of the mandatory fee expenditures at TCNJ, Kean and WPU did not reveal any significant exceptions with respect to whether they were being used for their stated purpose.

The scope of our expenditure testing excluded two mandatory fees at TCNJ (Student Activity and Health Insurance fees) and one mandatory fee at WPU (Student Government Association fee).¹ One mandatory fee at Kean (Transportation fee) was excluded from our expenditure testing because the Kean accounting department could not identify all expenditures related to this mandatory fee. Our samples were designed to provide conclusions about the validity of transactions, internal controls and the effectiveness and accuracy of the mandatory fee process at each of the schools.

¹ These mandatory fees were excluded because they are considered pass-through charges in which the school collects the money and then transfers the funds to the separate entity that is responsible for the oversight and spending of the funds.

This audit was performed pursuant to the State Comptroller's authority as set forth in *N.J.S.A. 52:15C-1 et seq.* We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

SUMMARY OF AUDIT RESULTS

Our audit revealed that the mandatory fees charged to full-time undergraduate students by TCNJ, Kean and WPU comprised a significant percentage of the cost of attendance in FY 2012 and FY 2013. We noted that at all three schools, mandatory fees represented approximately one-third of the total amount charged to students. In FY 2013 alone, these three schools collected more than \$115 million in mandatory fees.

Other than Board of Trustee bylaws and resolutions, none of the schools had written policies or procedures governing the development and management of their mandatory fee process. Further, only WPU was able to provide documentation justifying an increase of its mandatory fees. At TCNJ, mandatory fees were not assessed on an individual basis; instead, they were increased at the same percentage as tuition in order to balance TCNJ's budget. Kean increased one mandatory fee, but could not provide documentation supporting the increase.

We found that Kean and TCNJ do not maintain separate funds for each mandatory fee. Further, Kean could not identify all mandatory fee expenditures for its Transportation fee. By commingling funds and providing only vague mandatory fee descriptions, the schools fail to promote transparency in the use of these monies.

We also found that Kean did not maintain documentation supporting photocopier expenditures charged to its mandatory fee funds, despite a requirement from the New Jersey Division of Archives and Record Management (DARM) that these records be retained for seven years.

In addition, we noted that at all three schools, revenue from several of the mandatory fees was used to subsidize payroll expenditures related to those fees. While it appeared the payroll activities complied with the mandatory fee

purposes, payroll expenditures are not included in the fee descriptions as a use or purpose of these fee monies.

We make eight recommendations to address the weaknesses we identified.

AUDIT FINDINGS AND RECOMMENDATIONS

Internal Controls Over Mandatory Fees

Written policies and procedures specific to mandatory fees do not exist at any of the three schools we reviewed.

In 1986, the New Jersey Legislature granted autonomy to State universities and colleges, allowing them to “determine tuition rates and other fees to be paid by students.” According to *N.J.S.A. 18A:3B-6*, the governing board (known as the Board of Trustees at TCNJ, Kean and WPU) has the power to set fees, but only after it conducts a public hearing. *N.J.S.A. 18A:64-3.1* requires two student representatives on the Board of Trustees (Board), with one of those representatives granted voting rights.

Since the Legislature did not provide a statutory mechanism to regulate the mandatory fee process, we performed testing at the three schools to determine what controls, if any, the schools themselves placed over the mandatory fee process. We further verified the schools’ adherence to State laws requiring the Boards to conduct public hearings and to include two student representatives as Board members.

In accordance with State law, we found that all three schools held public hearings and two of them, TCNJ and Kean, had two student representatives serving on their Boards. However, at WPU we found that the school’s 2013 student election resulted in only one qualified candidate running to serve on its Board, which is in violation of *N.J.S.A. 18A:64-3.1*. Beyond compliance with the minimal requirements of State statutes, none of the schools had a structured process governing the assessment of mandatory fees or the basis used to determine fee amounts.

Written Policies and Procedures

Upon our request for policies and procedures governing the mandatory fee process, we were provided with relevant Board bylaws and resolutions from TCNJ, Kean and WPU. Our review of these documents indicated that the only language specific to mandatory fees and their respective rates at the three schools was a requirement that they be set and approved by the Board. Beyond this, no written policies and procedures over the governance of mandatory fees could be provided by the three schools. Written policies and procedures would establish a system of internal controls over the development and management of mandatory fees and ensure their consistent application. Specifically, written policies and procedures would define who is responsible for the assessment or adjustment of mandatory fees. In addition, written policies should exist to establish guidelines for monitoring whether mandatory fee revenue is used efficiently and for its intended purpose.

Documented Basis for Individual Fee Amounts

The schools should establish policies documenting the process by which mandatory fee determinations are made. For each mandatory fee, this documentation should include, at a minimum, the purpose of the fee and the criteria used to determine its rates, including the projected mandatory fee revenue and the appropriate use of such funds.

Officials at all three schools indicated that they consider mandatory fee rates when creating their annual budgets. Upon our request for documentation supporting the justification of mandatory fee rates, we were provided with varying degrees of support as described below.

WPU provided us with Finance, Audit and Institutional Development Committee minutes and memorandums regarding mandatory fee activity. Our review of this documentation indicated that WPU adjusted only one mandatory fee, the Transportation fee, during our testing period. The minutes and

memorandums included the factors and rationale used to determine the increase made to this fee.

TCNJ provided us with its strategic budget planning cycle, operating budgets and budget reports. Our review of these items noted that four of the school's mandatory fees were increased at the same rate as tuition. TCNJ informed us that it increases mandatory fees at the same rate as tuition to balance its budget. As a result, the school does not justify mandatory fees on an individual basis.

Kean provided us with quarterly budget reports, year-end analysis of fee revenue and expenses and resolutions pertaining to fee activity. Our review of these documents indicated that while changes in fee amounts were noted, the assessment of each fee on an individual basis was not. Specifically, we noted that Kean increased one mandatory fee, the Capital Improvement fee, during our testing period. However, the documentation did not include the criteria considered to justify an increase of this fee. Further, Kean officials informed us that the school had no tangible or sophisticated process to conduct a cost-benefit analysis in relation to mandatory fees.

Recommendations

1. WPU should ensure that two student representatives serve on its Board of Trustees as required by *N.J.S.A. 18A:64-3.1*.
2. In addition to Board of Trustee bylaws and resolutions, TCNJ, Kean and WPU should develop written policies and procedures that establish internal controls over the development and assessment of mandatory fees and ensure those controls are applied consistently.
3. TCNJ and Kean should assess each of its mandatory fees individually and document the justification and criteria used for any adjustments made.

Accounting and Transparency of Mandatory Fees

Commingled funds and vague fee descriptions hinder transparency of the use of mandatory fee monies.

Accounting

Of the three schools reviewed, only WPU maintains separate funds for each individual mandatory fee. We found that Kean commingles five of its nine mandatory fees into one fund and that TCNJ commingles seven of its mandatory fees into four funds.

To further promote accountability and transparency, Governmental Accounting Standards advise that separate funds be used to “account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes. . . .” Separate funds help schools evaluate the funding level and the appropriate use of mandatory fee revenue for expenditures each fiscal year. Commingling mandatory fee funds makes it more difficult to determine surpluses and deficits for each mandatory fee. For example, at TCNJ three mandatory fees were commingled in a single fund that reflected a deficit of approximately \$2.3 million at the end of FY 2013. However, when we reviewed the balances of each mandatory fee separately, we found the Capital Facilities/General Service fee had a surplus of approximately \$125,000, while the Computer Access fee had a deficit of approximately \$965,000 and the Student Service fee had a deficit of approximately \$1,451,000. The ability to clearly identify surpluses and deficits on an individual fee basis helps determine whether a mandatory fee amount should be adjusted.

We also found that the Kean accounting department was not able to easily identify the entire mandatory fee expenditures related to its Transportation fee, such as fueling costs. As a result, we could not test and verify if Transportation fee monies were spent in accordance with the fee’s stated purpose. This

occurred because Kean did not have a method of accounting for mandatory fee activity to specifically identify the exact expenditures related to each of the mandatory fees.

As part of our expenditure testing at Kean, we requested support for a sample of photocopier transactions and were informed that all documentation supporting transactions older than one year was not retained and therefore could not be provided. In accordance with the Division of Archives and Record Management (DARM) policy for four-year schools, Kean is required to retain documentation supporting copier expenditures for seven years. These unsupported expenditures for FY 2012 totaled approximately \$43,000.

Descriptions of Mandatory Fees

In accordance with *N.J.S.A.* 18A:3B-44(a)(7), four-year colleges and universities are required to provide “comprehensive information” on the costs associated with enrollment in their school, including student fees. Further, the law requires that these costs be posted on the schools’ websites and updated annually.

At each school, we found that revenue from several mandatory fees was used to subsidize payroll expenditures related to those fees. More specifically, we found that at two of the selected schools, the percentage of mandatory fee revenue used to cover payroll expenditures was 30 percent, as indicated in the table below.

FY 2013 Payroll Expenditures as a Percent of Fee Revenue			
School	Mandatory Fee Revenue	Payroll Expense	Percent of Fee Revenue
The College of New Jersey	\$30,204,133	\$ 9,142,077	30%
Kean University	\$45,164,235	\$13,624,778	30%
William Paterson University	\$41,079,824	\$ 4,267,139	10%

The descriptions of mandatory fees provided by TCNJ and WPU do not identify payroll as a use for any of the mandatory fees. At TCNJ, we found that approximately 90 percent (\$5.3 million) of the expenditures charged to the

school's Student Service fee were for payroll, despite the fee description stating that this fee "funds the student's contribution towards student services that are fee driven such as the Health Services, Athletics, Intramurals, Campus Wellness Services, Fitness Services, etc."

At Kean, we found that only one fee, the University Center fee, listed salaries as a use of fee monies. However, approximately 70 percent (\$9.2 million) of the payroll expenditures noted in the table above are funded by Kean's General Service fee which does not include salaries in its description as a use of fee monies. Additionally, at the time of our testing we noted that Kean did not provide descriptions of its mandatory fees on its website.

While there is no prohibition against using mandatory fee revenue for payroll, if it is done, its use should be explicitly stated in the schools' descriptions of mandatory fees. This would ensure transparency in the use of mandatory fee monies.

Recommendations

4. TCNJ and Kean should establish separate funds for each mandatory fee to promote transparency of fee revenues and expenditures.
5. Kean should implement accounting procedures that establish a process to accurately identify transactions related to mandatory fee activity.
6. Kean should comply with DARM requirements and maintain supporting documentation of copying expenditures for seven years.
7. TCNJ, Kean and WPU should update their descriptions of mandatory fees to include all uses of fee monies, including salaries.
8. Kean should post current descriptions of its mandatory fees on its website to improve transparency of enrollment costs.

REPORTING REQUIREMENTS

We provided a draft copy of this report to TCNJ, Kean, and WPU for their review and comment. Their comments were considered in preparing our final report and are attached as Appendix B.² We acknowledge that all three schools indicated in their responses that some of our recommendations have already been implemented. WPU agreed with all of our recommendations, while TCNJ and Kean agreed with some, but not all, of our recommendations. While TCNJ noted exception with some of the recommendations, Kean respectfully declined to follow most of our recommendations and disagreed with most of our audit conclusions.

Kean has disputed most of OSC's conclusions and reiterated support for its current operating practices, as OSC found them during the audit period. Among other things, Kean stated repeatedly in its response that it was in compliance with all statutes, regulations and principles of accounting. OSC does not disagree with Kean's assertions in that regard.

Kean's vigorous support of its internal practices, the numerous other assertions made, and documents cited in its response to OSC's audit report do not, however, provide compelling evidence warranting a change to the audit conclusions. Indeed, many, if not all, of the arguments made in Kean's response are unsupported and irrelevant when read in conjunction with the findings of the audit report. In consideration of the heightened focus and sensitivity on the rising cost of higher education, OSC reminds TCNJ and Kean that the findings of this audit and the resulting recommendations are designed to promote and improve the transparency of the budgeting process and the monitoring of mandatory fees, which are a significant component of the per-pupil cost of attendance at State universities and colleges.

² For example, Kean University noted that OSC had erroneously stated that student fees were used to "supplement" expenses rather than "offset" expenses. Kean was correct and relevant changes were made to the body of the report.

The Office of the State Comptroller is required by statute to monitor the implementation of our recommendations. To meet this requirement and in accordance with *N.J.A.C. 17:44-2.8(a)*, following the distribution of the final audit report, TCNJ, Kean, and WPU shall report to the Office of the State Comptroller within 90 days stating the corrective action taken or underway to implement the recommendations contained in the report and, if not implemented, the reason therefor. This Office will review the implementation of the corrective action plan.

APPENDIX A

Mandatory Fee Names and Descriptions (as provided by the schools)

<u>TCNJ Fee Names</u>	<u>Description</u>
Student Service	Funds the student's contribution towards student services that are fee driven such as the Health Services, Athletics, Intramurals, Campus Wellness Services, Fitness Services, etc.
General Service/Capital	Funds the construction, restoration, and maintenance for various student and academic facilities on campus such as the Science Complex, Social Science Building, new Library, etc.
Student Center	Funds the operations and maintenance of the Student Center.
Student Activity	Is collected by The College on behalf of the Student Finance Board (SFB). The SFB is responsible for allocation and management of the funds. The SFB is comprised of various clubs, service organizations and activities of the college campus for the purpose of enriching the co-curricular life of the college community.
ID	Supports the cost of operating The College's one-card program.
Health Insurance	All full-time students (Undergraduates: 3 or more S.H. units; Graduate: 9 or more S.H. credits) are required by N.J. State law to maintain health insurance with at least basic hospital benefits throughout college enrollment. Therefore, full-time students will be billed each semester and automatically enrolled in the Student Health Insurance Plan (SHIP) each semester. Only those students with comparable health insurance coverage can opt out of SHIP.
Computer Access	Funds the computing infrastructure throughout the campus. Student use of computer service and particularly Internet services has increased significantly. This fee enables the College to provide state of the art access and services.
<u>Kean Fee Names</u>	
Technology	The technology fee provides funding to enhance the technology infrastructure for student, faculty, and staff use in teaching, learning, and administration. This fee supports a number of basic computing and telecommunications services: central computing and server facilities; on-line learning; student computer labs; software; university internet access; and student support services.
Athletics and Recreation	The athletic and recreation fee provides funding to enhance the athletic experience of our student-athletes and the entire Kean University community. This fee supports all areas of the 13 NCAA Division III intercollegiate teams offered by the University, as well as recreational and intramural programming. In addition, the fee covers the expenses associated with operating and maintaining 3 fitness centers and 3 gymnasiums on campus.

University Center	The University Center is a self-supporting auxiliary operation. The University Center fees provides funding for various student programs; University Center Computer Lab software, supplies and equipment; University Center Game Room software, supplies and equipment; University Center building maintenance and upkeep; and salaries for student and professional staffing.
Student Government	The Office of Student Government offers students the opportunities for a professional development experience. The Office provides diverse campus-wide programming that enhances the intellectual, cultural and personal growth of the students and the community. The Office provides a wide array of service, cultural, professional, governmental, and performance groups to enrich the learning environment and prepare our students for the professional world. The Office of Student Government enhances the learning environment through the development of leaders who take individual and collective responsibilities in serving the concerns and interest of the students. Through both boards we offer the opportunities for a voice and involvement in University decisions that affect the student population.
General Service	The general service fee provides funding for all student service programs excluding athletic, which is funded with its own separate fee.
Campus Improvement	The campus improvement fee provides funds for the overall improvement and maintenance of the physical condition and appearance of the university.
Capital Improvement	The capital service improvement fee is used for debt, and to fund renovation and construction projects costing \$500,000 or more those are not funded by bonds.
Transportation	The transportation fee provides funds to purchase and maintain the vehicles used to transport students and university employees between the main and east campus, and to support personnel costs associated with the shuttle system.
Library Improvement	The library improvement fee is used to support the student technology lab. It is used for subscription and the purchase of electronic resources that support student research and learning for the purchase of computers and other equipment dedicated to student use.
<u>WPU Fee Names</u>	
Campus Facilities (Two Fees)	Includes the Campus Facilities Fee which supports the improvement, repair and renovation of certain University buildings and grounds and the Science Building Facilities Fee which supports the improvement, repair and renovation of the University's science facilities.
General Service	Supports academic and other University programs not funded by the State of New Jersey, such as commencement.
Student Govern Assoc.	Is collected by WPU on behalf of the Student Government Association (SGA) who is responsible for the allocation and management of the funds. This fee supports all clubs, organizations and committees chartered through the SGA.

Student Service (Four Fees)	Includes the Athletic Fee which supports WPU's athletic programs and facilities. (Fee is not charged to graduate students), the Health and Wellness Fee which supports the programs and services offered by the Counseling, Health and Wellness Center, Information Technology Fee which supports the University's computing infrastructure, providing students with access to instructional and administrative technologies, such as Blackboard, library services, registration, advisement, grading and billing and the University Commons Fee which supports improvement, repair, maintenance, and renovation of the University Commons and Recreation Center.
Transportation	Supports the campus shuttle bus services. Students are not charged the transportation fee for the Summer Session.



**WILLIAM
PATERSON**
UNIVERSITY

KATHLEEN WALDRON • PRESIDENT
300 POMPTON ROAD • WAYNE, NEW JERSEY 07470-2103
973.720.2222 FAX 973.720.2399 • PRESIDENT@WPUNJ.EDU
WWW.WPUNJ.EDU

September 28, 2015

Anne Vidunas-Gladwell, CPA
Acting Director, Audit Division
Office of the State Comptroller
P.O. Box 024
Trenton, NJ 08625-0024

Dear Ms. Vidunas-Gladwell

Thank you for providing William Paterson the opportunity to respond to the September 2015 Student Fees audit conducted at our University. Our response to those particularly related to this University follows the recommendations made by the Office of the Controller.

Comptroller's Recommendations:

“WPU should ensure that two student representatives serve on its Board of Trustees as required by *N.J.S.A. 18A:64-3.1.*”

University's Response:

Student representatives to the Board are elected by the student population in a general election conducted by the Student Government Association. Unfortunately over the past several years only one candidate, each year, has elected to run for these open seats. The University will continue to work with the Student Government Association leadership to identify and encourage students to run for this position.

Comptroller's Recommendations:

“In addition to Board of Trustee bylaws and resolutions, TCNJ, Kean and WPU should develop written policies and procedures that establish internal controls over the development and assessment of mandatory fees and ensure those controls are applied consistently.”

University's Response:

The University agrees with this recommendation and will have more formal written policies and procedures for the mandatory fees developed during this current fiscal year.

Anne Vidunas-Gladwell, CPA
Acting Director, Audit Division
September 28, 2015
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Comptroller's Recommendations:

“TCNJ, Kean and WPU should update their mandatory fee descriptions to include all uses of the fee monies, including salaries.”

University's Response:

The University agrees with this recommendation and has already modified the fee descriptions on the webpage to indicate that the fees are used for both salary and non-salary expenditures.

Please feel free to contact me if you need any further information or clarification.

Sincerely



Kathleen Waldron
President



2 - NJ State Audit Recommendation: In addition to Board of Trustee bylaws and resolutions, TCNJ should develop written policies and procedures that establish internal controls over the development and assessment of mandatory fees and ensure those controls are applied consistently.

TCNJ's Response

The College plans to implement this recommendation during this fiscal year. In addition to *Key Budget Decision-Making Principles* and the *Statement of Principles: Tuition and Fees* approved by the Board of Trustees, the College will develop written policies and procedures for assessment of its mandatory fees and the related internal controls will be evaluated as part of the College's annual internal audit plan.

#3 - NJ State Audit Recommendation: TCNJ should assess each of its mandatory fees individually and document the justification and criteria used for any adjustments made.

TCNJ's Response

Each mandatory fee rate increase and/or the creation of any new mandatory fee is dictated by the institutional strategic priorities and are approved **individually** by the Board of Trustees ([see attached](#)) as part of the College's annual budget plan. The criteria used in assessing mandatory fee increases are guided by the *Key Budget Decision-Making Principles* and the *Statement of Principles: Tuition and Fees* that were approved by the College's Board of Trustees (<https://treasurer.tcnj.edu/files/2015/05/Tuition-Hearing-April-2015.pdf>). Annually, TCNJ develops a set of high-level planning assumptions to forecast the budget results for the next fiscal year. These assumptions are based on the best economic and financial information available at the time (including the anticipated level of New Jersey State operating support).

Even though TCNJ has articulated that the revenues from its mandatory fees might not and generally **do not cover all the necessary expenses of the fee supported cost centers**, the audit report (see page 10) states that

“For example, at TCNJ, three mandatory fees were commingled in a single fund that reflected a deficit of approximately \$2.3 million at the end of FY 2013”. However, when we reviewed the balances of each mandatory fee separately, we found that the Capital Facilities/General Service Fee had a surplus of approximately \$125,000, while the Computer Access Fee had a deficit of approximately \$965,000 and the Student Service

Fee had a deficit of approximately \$1,451,000. The ability to clearly identify surpluses and deficits on an individual fee basis helps determine whether a mandatory fee amount should be adjusted.”

If TCNJ adopted the above recommendation “*to clearly identify surpluses and deficits on an individual fee basis [to] determine whether a mandatory fee amount should be adjusted*”, for fiscal year 2013, in order to cover the deficits cited above, TCNJ would need to have increased the student service fee and the computing access fee by **37%** and **36%**, respectively instead of the **3.5%** approved by the Board of Trustees as part of the annual budget plan. It is also important to note that this strategy would have clearly violated a key principle articulated by TCNJ’s Board of Trustees in its **Statement of Principles: Tuition and Fees:**

“Conclusion

Thus, when determining tuition and fees, the Trustees strike a balance between what students pay, and what the state and federal governments pay. That balance must take into account the finite costs of a quality education and that concomitantly, when, after rigorous internal cost control, state support decreases, tuition must increase if quality is to be preserved”.

#4 -NJ State Audit Recommendation: TCNJ should established separate funds for each mandatory fee to promote transparency of fee revenues and expenditures.

The audit report (see page 10) also states that “Government Accounting Standards advise that separate funds be used to “*account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes....*” Separate funds helps schools evaluate the funding level and the appropriate use of mandatory fee revenue for expenditures each fiscal year. Commingling mandatory fee funds make it more difficult to determine surpluses and deficits for each mandatory fee. For example, at TCNJ, three mandatory fees were commingled in a single fund that reflected a deficit of approximately \$2.3 million at the end of FY 2013.

TCNJ’s Response

It is impractical for TCNJ to adopt the recommendation above because in addition to tuition and New Jersey State operating appropriations, student service fee, general service fee/capital and computer access fee are the primary funding sources for **TCNJ’s Unrestricted General Fund Budget**. TCNJ has clearly articulated that the revenues from most of its mandatory fees **do not cover all the necessary expenses of the fee supported cost centers**, so for those cost centers there will always be deficits if the fee revenues are compared to the expenses.

TCNJ uses the PeopleSoft financial system and has designed its chart of accounts structure to be in compliance with the financial reporting requirements of the Governmental Accounting Standards Board (GASB) and the National Association of College & University Business Officers (NACUBO). In accordance with GASB, TCNJ uses separate “**Funds**” to classify and report the activities of unrestricted operations, auxiliaries, restricted grants, loan funds and plant (fixed assets) funds.

To promote accountability and transparency, within the **Unrestricted General Fund**, each mandatory fee is identified in the financial system with its own unique PeopleSoft ChartField labeled as **DeptID**. The **DeptID** is one of the ChartFields where responsibility is assigned for budgeting and the monitoring of activity. TCNJ **does not commingle** the revenues for more than one of its mandatory fees within the same **DeptID** ChartField ([see attached](#)). The State auditors were provided financial reports to illustrate this fact. This explains how they were able to review the balances of each mandatory fee separately (*see the audit report, page 10*). It should be noted that in the unlikely event that a particular mandatory fee is in a surplus position with respect to its concomitant expenses, the College is not restricted from utilizing those surplus funds for other unrestricted College operating budget expenses. In addition to tuition and state operating appropriations, the mandatory fees referenced above are used to fund the activities of various expenditures within the **Unrestricted General Fund**. To preserve the integrity and transparency of TCNJ's external financial reporting, TCNJ records the revenues and related expenditures within the same fund group.

#7 - NJ State Audit Recommendation: – TCNJ should update the mandatory fee descriptions to include all uses of fee monies, including salaries.

TCNJ's Response

The College has implemented this recommendation by adding “personnel costs” to the appropriate fee description. The purpose of each mandatory fee is clearly articulated in the descriptions below:

- **Student Service Fee** – While it does not cover all necessary expenses, all income from this fee is used to partially fund the operations (including personnel costs) of departments dedicated to the support student service such as the Health Services, Athletics, Intramurals, Campus Wellness, Fitness Services, etc.
- **General Service Fee/Capital** – All income from this fee is dedicated exclusively to fund the annual debt service requirements relating to educational and general (E&G) facilities, in-addition to funding the capital plan that addresses the continuing asset renewal of existing E&G facilities.
- **Student Center Fee** – The Student Center Fee is used exclusively to support the operations and maintenance of the Student Center, including debt service and capital expenditures relating to this facility.
- **Student Activity Fee** – The Student Activity Fee is collected by The College of New Jersey (TCNJ) on behalf of the Student Finance Board (SFB).The SFB is responsible for allocation and management of the funds. The SFB is an elected Board of student representatives. The primary goal of the SFB is to allocate the Student Activity Fund to various student clubs and student service organizations for the purpose of enriching the co-curricular life of the college community.
- **Card Service Fee** – The Card Service Fee is used to partially support the operations (including personnel costs) and equipment maintenance of the College's ID card program.
- **Computer Access Fee** – While it does not cover all necessary expenses, the Computer Access Fee is used to partially fund the costs associated with computing infrastructure throughout the campus

(including personnel costs). Student use of computer services, particularly Internet services, has increased significantly. This fee enables the College to provide critical access and other technology services necessary for students to succeed in their academic majors.



KEAN

October 16, 2015

VIA E-MAIL

Anne Vidunas-Gladwell, CPA
Acting Director, Audit Division
Office of the State Comptroller
P.O. Box 024
Trenton, NJ 08625-0024

Re: Response of Kean University to Office of the State Comptroller
Performance Audit

Dear Ms. Vidunas-Gladwell:

This is the formal response of Kean University to the September 17, 2015 draft of the performance audit "Controls Over Collection, Allocation and Use of Student Fees at Selected New Jersey Colleges and Universities" conducted by the Office of the State Comptroller (OSC). Kean University's student fees accounting has been examined by the certified public accounting firms of Wiss and O'Connor Davies and has been determined to be in full compliance with all New Jersey statutes, the New Jersey Administrative Code, accounting principles generally accepted in the United States, and the accounting pronouncements of the Governmental Accounting Standards Board (GASB). It is significant that OSC affirmatively stated that its testing of the mandatory fee expenditures at Kean University did not reveal any significant exceptions with respect to whether the fees were being used for their stated purpose.

Deficiencies With the OSC Report

OSC's report describes student fees as "supplementing" expenses but student fees actually are intended to "offset" expenses. OSC provided the total appropriation for The College of New Jersey (TCNJ), Kean University, and William Paterson University (Paterson), but failed to note that as to Kean University, the appropriation offsets approximately 43% of operating expenses, while the remaining 57% shortfall is offset by tuition, fees, and grants. OSC described student fees as "significant" when, if being accurate, OSC should have noted that the percentage of fees charged to undergraduate full-time students in comparison to the combined cost of tuition and fees is comparable to the percentage charged on average by New Jersey senior public colleges and universities.

OSC disregarded evidence submitted by Kean University. The University submitted to OSC the report "Kean University Analysis of Student Fees vs. Expenses Selected Fee Categories Years Ended June 30, 2012 and 2013" which evidenced the tracking of fee revenue and expenses as

part of the budgeting process. OSC apparently chose to ignore that report. Moreover, OSC indicated that the Kean University Transportation Fee was excluded from expenditure testing because "components of the fee were not readily identifiable" when in fact, a single component (gasoline) had been changed in terms of the tracking process and would simply have taken more time to identify.

Although OSC met with the University's Budget Director in a group setting, the Budget Director never was individually interviewed by OSC. Kean's Budget Director is the person of knowledge and responsibility over a great deal of the substantive issues in OSC's report. Had OSC interviewed the Budget Director, it would have learned of the University's comprehensive annual budget process: the University President tracks revenue and expenditures on a monthly basis and reports on these quarterly to the Board of Trustees. The Budget Director prepares these reports for the President and the Board of Trustees. In mid-year, the President meets with his Cabinet and provides direction and estimates on the budget for the coming fiscal year. Each Cabinet member is directed to review their expenditures, as well as prepare their financial objectives for the coming year. The President then meets with the Budget Director to review the previous years' budgets, identify trends, and discuss revenue and expenses for various cost centers. The President then looks at enrollment data and expense projections for the coming year. The Budget Director then prepares revenue and expense estimates based upon various scenarios related to full-time equivalents and proposed tuition increases. These materials are shared with the Board's Finance Committee and the full Board. A final recommendation is made to the Board for a public vote. Thus, it is clear that there is a comprehensive and thoughtful assessment of each of Kean University's mandatory student fees.

The following sets forth the specific recommendations OSC made to Kean University and the University's response:

OSC's First Recommendation to Kean University

In addition to Board of Trustee bylaws and resolutions, Kean University should develop written policies and procedures that establish internal controls over the development and assessment of mandatory fees and ensure those controls are applied consistently.

Kean University's Response to OSC's First Recommendation

It was inaccurate to suggest that policies and procedures do not exist. The Higher Education Restructuring Act of 1994 clearly assigns to the Kean University Board of Trustees and other governing boards of higher education the responsibility for setting tuition and fees. The bylaws of the Kean University Board of Trustees provide that the Board of Trustees shall perform all responsibilities in accordance with New Jersey statutes. See: <http://www.kean.edu/about/leadership-governance/board-trustees> Tuition and fees are set together by the Board of Trustees on an annual basis in a public forum. Kean University's Board of Trustees approve changes in University tuition and fees each year following a public hearing and the Board pass Resolutions with supporting materials that further evidence Kean's process as to fee setting. Kean University's policy for setting tuition and fees is the State statute and Board of Trustee bylaws. Establishment of fees and subsequent increases are reviewed as

part of the annual budget process. At Kean University, no new fees have been established in over ten years. Consistent with New Jersey statutes, the New Jersey Administrative Code, and the pronouncements of GASB, Kean University is in full compliance with all accounting and reporting standards as to its policies and procedures on student fees and thus respectfully declines to follow the first recommendation of OSC as to Kean University.

OSC's Second Recommendation to Kean University

Kean should assess each of its mandatory fees individually and document the justification and criteria used for any adjustments made.

Kean University's Response to OSC's Second Recommendation

OSC's report omits a highly relevant fact that Kean University tracks revenues and expenses in cost centers. The report notes that fee revenue is commingled with unrestricted funds, but omits the fact that this practice is consistent with generally accepted accounting principles and does not preclude the University from being able to track and account for revenue and expenses. OSC's report indicates that Kean could not identify certain mandatory fee expenditures when in fact this statement is wholly inaccurate for all fees but one, wholly inaccurate for all expenses within the fees except for one, and only partially accurate for that one expense in that one fee (gasoline). All of the University's fees are assessed each year as part of the comprehensive budget process more fully set forth above. Consistent with New Jersey statutes, the New Jersey Administrative Code, and the pronouncements from GASB, Kean University is in full compliance with all accounting and reporting standards as to how its mandatory fees are assessed and respectfully declines to follow OSC's recommendation.

OSC's Third Recommendation to Kean University

Kean should establish separate funds for each mandatory fee to promote transparency of fee revenues and expenditures.

Kean University's Response to OSC's Third Recommendation

N.J.S.A.18A (including chapters 3, 3A, 3B, 3C, 62, & 64) reveals no specific requirements governing the accounting or management of mandatory fees charged by the University. However, as noted in OSC's report, N.J.S.A. 18A:3B-6 (c) provides that: "the governing board shall set tuition and fees, however, prior to date of the adoption of a tuition or fee schedule or an overall institutional budget, and with reasonable notice thereof, the governing board shall conduct a public hearing at such times and places as will provide those members of the college community who wish to testify with an opportunity to be heard." Kean University is and has been in full compliance with the statutory requirement promulgated by the Legislature regarding tuition and fees.

As a public university, Kean University follows the accounting pronouncements of GASB, which is considered the basis for accounting principles generally accepted in the United States of America for public sector organizations. Specifically, the University follows the accounting and financial reporting guidance set forth in GASB Statement No. 35, "Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities– an amendment of GASB Statement No. 34."

The University is considered a legally separate entity that is reported as a special-purpose government agency engaged solely in business-type activities and the activity of the University is reported in an enterprise fund. GASB 34, paragraph 67 provides: "Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services."

GASB 34, paragraph 122 provides: "Governments that report enterprise funds or that use enterprise fund accounting and reporting standards to report their activities are required to present segment information for those activities in the notes to the financial statements. For purposes of this disclosure, a segment is an identifiable activity reported as or within an enterprise fund or another stand-alone entity for which one or more revenue bonds or other revenue bonds or other revenue-backed debt instruments (such as certificates of participation) are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt and has related expenses, gains and losses, assets and liabilities that can be identified.

GASB provides some very specific examples regarding reporting segment information in its Comprehensive Implementation Guide – Questions and Answers:

7.86.2

Q – A public university has 15 residence halls on its campus, 10 of which have individual bonded debt secured by the room fee revenues of the specific dorm. Is the "identifiable activity" the entire group of 15 residence halls, or only those with revenue bonds outstanding?

A – Paragraph 122 of Statement 34, as amended, requires governments to disclose information about "segments" of enterprise funds in the notes to financial statements. One essential characteristic of a segment is that it is an "identifiable activity". The "identifiable activity" is the source of the pledged revenues. If the bond indenture specified that the pledged revenues were the fees from all of the dorms, the dorm system would be the identifiable activity. In this case, however, because each dorm's debt is secured by its own revenues, segment disclosures should be made for each of the 10 residence halls that meet all of the criteria in paragraph 122. The primary purpose of the disclosure required by paragraph 122 is to provide information about "coverage" of pledged revenues, not to disaggregate all of the operating results of enterprise funds.

7.86.3

Q – A state university's food service facilities were financed by revenue bonds. The bond indenture includes a requirement to provide to the trustee a financial statement showing the coverage of the pledged revenues to the operating expenses of the facilities. Is the university required to make the segment disclosure set forth in paragraph 122 of Statement 34?

A – No. Paragraph 122, as amended, states that an activity is a segment if its revenues, expenses, gains and losses, and assets and liabilities are required to be accounted for separately. Therefore, because the requirement in this case is limited to only revenues and expenses, the university would not be required to make segment disclosures for its food service operations.

Mandatory student fees assessed by the University do not meet the GASB definition for segment information and therefore would not be required to be reported separately in the University's financial statements. The financial statements of other public universities, The College of New Jersey, Rutgers University, Montclair State University, The Richard Stockton College, and Ramapo College reveal that those institutions did not report segment information which is consistent with Kean University's reporting practices. The University is in full compliance with the financial and accounting practices as prescribed by GASB and separate funds for each mandatory fee are not required by GASB. Consistent with New Jersey statutes, the New Jersey Administrative Code, and the pronouncements from GASB, the University is in full compliance with all accounting and reporting standards as it relates to how its fees are determined and reported and thus respectfully declines to accept the OSC recommendation to establish separate funds for each mandatory fee.

OSC's Fourth Recommendation to Kean University

Kean should implement accounting procedures that establish a process to accurately identify transactions related to mandatory fee activity.

Kean University's Response to OSC's Fourth Recommendation

Kean University already has accounting procedures necessary to identify these expenditures which have been determined by its external auditor to be in good practice consistent with GASB and all relevant laws and regulations. As previously stated herein, Kean tracks revenues and expenses in cost centers. OSC's report noted that fee revenue is commingled with unrestricted funds, but omitted the significant fact that this practice is consistent with generally accepted accounting principles and does not preclude the University from being able to track and account for revenue and expenses for each. Consistent with New Jersey statutes, the New Jersey Administrative Code, and the pronouncements of GASB, the University in in full compliance with all accounting and reporting standards as to its fees and respectfully declines to follow the OSC's recommendation.

Kean University disputes the allegation of OSC that Kean had no tangible or sophisticated process to conduct a cost-benefit analysis in relation to mandatory fees. Additionally, it should be noted that whenever a new internal control or procedures is proposed, the University must perform a cost-benefit analysis regarding implementation. The cost of implementing a specific control should not exceed the expected benefit of the proposed internal control or procedure. Kean University has determined that although the revenue allocations for each mandatory fee may be performed, further segregation and allocation of expenditures would prove to be very complicated and labor-intensive. The University would necessarily have to implement a new chart of accounts in order to accomplish this segregation of mandatory fees into separate funds.

OSC's perspective of best practices does not take into consideration that, when viewed at the basic level, the fully loaded per-credit revenue (the total of tuition and each mandatory fee in the aggregate) the University charges its students to attend its programs in order to recover the cost of providing those programs, the total cost to the student is unlikely to change even if the University were to implement separate accounts. Indeed, the student fees charged do not actually cover the true expenses of Kean University in providing services to students.

OSC's Fifth Recommendation to Kean University

Kean should comply with DARM requirements and maintain supporting documentation of copying expenditures for seven years.

Kean University's Response to OSC's Fifth Recommendation

Kean University complies with DARM requirements and thus follows OSC's fifth recommendation. OSC disregarded evidence submitted by Kean University of a sample electronic report tracking the costs of duplication services through the University's Xerox Center and how charges are posted back to individual costs centers. OSC's report erroneously suggested that such records were destroyed; they were not. Paper copies were not maintained in the Xerox Center for more than a year and were not required to be held further because an electronic maintenance system is in place to record such costs. A request directed to the University's Office of Computer and Information Services for the records OSC sought would have produced the information requested. No such request was made. Moreover, Kean University demonstrated that the incident identified in the OSC report was an isolated incident.

OSC's Sixth Recommendation to Kean University

Kean should update its mandatory fee descriptions to include all uses of fee monies, including salaries.

Kean University's Response to OSC's Sixth Recommendation

Fee descriptions have been updated to include salaries on Kean University's website: http://www.kean.edu/sites/default/files/pdf/Kean-Description_of_Fees_0615.pdf

OSC's Seventh Recommendation to Kean University

Kean should post current mandatory fee descriptions on its website to improve transparency of enrollment costs as required by N.J.S.A. 18A:3B-44(a)(7).

Kean University's Response to OSC's Seventh Recommendation

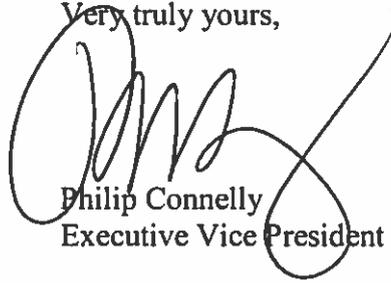
Student fees are intended to offset and not supplement expenses. Fee descriptions are and have been posted on Kean University's website consistent with N.J.S.A. 18A:3B-44(a)(7): http://www.kean.edu/sites/default/files/pdf/Kean-Description_of_Fees_0615.pdf

State colleges and universities generally are autonomous organizations. If the development of separate funds and special accounting practices for mandatory fees were significant issues, the Secretary of Higher Education would have provided additional guidance for the State colleges and universities to follow. There has been no such guidance.

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Consistent with New Jersey statutes, the New Jersey Administrative Code, and the pronouncements from the Governmental Accounting Standards Board, Kean University is in full compliance with all accounting and reporting standards as to how its tuition and mandatory fees are reported and determined. Establishment of separate funds and special accounting practices for student fees are not required by New Jersey statute, New Jersey Administrative Code, or GASB.

Very truly yours,

A handwritten signature in black ink, appearing to be 'P. Connelly', written over the printed name and title.

Philip Connelly
Executive Vice President for Operations