STATE OF NEW JERSEY
OFFICE OF THE STATE COMPTROLLER

RUTGERS,
THE STATE UNIVERSITY OF NEW JERSEY

CONTRACTING AND SELECTED FINANCIAL MANAGEMENT PRACTICES

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January 19, 2011
PA-11

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BACKGROUND

Rutgers, the State University of New Jersey (Rutgers or University), is the largest university in the State of New Jersey (State), with a current enrollment of over 50,000 students across three campuses located in New Brunswick, Newark and Camden.

Rutgers is governed by a Board of Governors (Board) consisting of 11 voting members, 6 of whom are appointed by the Governor. Rutgers also has a Board of Trustees consisting of 60 members, 11 of whom are appointed by the Governor. Among other responsibilities, the Board of Trustees serves in an advisory capacity and oversees the property held by Rutgers before the establishment of the Board of Governors in 1956.

Rutgers employs approximately 13,000 full-time and part-time faculty and staff. For fiscal year (FY) 2009, Rutgers' operating expenses were $1.68 billion and operating revenues were $1.26 billion, resulting in an operating loss of $420 million. Separately, in FY 2009 the State provided to Rutgers appropriations totaling $305 million and $145 million for State-paid fringe benefits.

Rutgers serves as one of the State's research universities and received, as part of its operating revenues, $444 million in grants during FY 2009, including federal grants and contracts ($240 million), State and municipal grants and contracts ($124 million) and nongovernmental grants and contracts ($80 million).

Beginning in the summer of 2008, a series of publicly reported news articles raised questions and concerns regarding fiscal management and contracting practices within the University's Athletics Department. Thereafter, the Office of the State Comptroller (OSC) undertook a preliminary inquiry into the University's financial practices to assess the level of risk associated with those practices and to determine whether a full audit by OSC would be appropriate. That risk assessment yielded a determination by OSC that an audit was warranted, focusing on contracting and procurement issues at the University. This report contains the findings of OSC's audit.

AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

The objective of our performance audit was to evaluate Rutgers' contracting and selected financial management practices for the period July 1, 2007 to October 28, 2010. In some cases, relevant contracts we reviewed were executed prior to July 1, 2007; accordingly, our review included the respective contract documentation. Specifically, we evaluated:

1. procurements of goods and services absent a bidding process;
2. capital project contracts;
3. employment contracts;
4. implementation of and controls over the Rutgers Integrated Administrative System (RIAS)[1]; and
5. cash management practices.

This audit was performed in accordance with the State Comptroller's authority as set forth in *N.J.S.A.* 52:15C-1 et seq. We conducted our audit in accordance with generally accepted government auditing standards applicable to performance audits. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

To accomplish our objective, we conducted numerous interviews with Rutgers' staff relevant to the areas noted above. We also reviewed relevant State laws as well as Rutgers' internal policies, procedures and guidelines. We also reviewed

[1] RIAS is an Enterprise Resource Planning (ERP) system intended to create a University-wide administrative system. An ERP system consolidates all of an organization's departmental data, including tangible assets, financial resources and human resources, into a single computer system which services each department's specific needs.

various documents concerning Rutgers' exemption from the State's public bidding requirements.

We examined supporting documentation for a sample of non-bid contracts valued over $100,000 and capital project contracts valued over $1.5 million, and reviewed documents concerning the employment contracts of three head coaches within Rutgers' Athletics Department.

We also reviewed the University's implementation of RIAS, as well as security measures concerning user access to RIAS.

In addition, we analyzed University operating expenditures using computer-assisted automated techniques. Based on our analysis and assessment of risk, we segregated and tested expenditure items of $5,000 or less.

Lastly, we examined processes related to cash management, specifically, the University's bank reconciliation and cash receipt verification processes.

SUMMARY OF AUDIT RESULTS

Under current law, Rutgers is exempted from the State's public bidding requirements that apply to all other State colleges and universities. Our audit found that despite Rutgers' stated commitment to a competitive purchasing process, its procedures and practices fall short of fostering competition, thereby risking overpayment for goods and services. Further, Rutgers' procurement of goods and services generally fails to follow its own stated policies concerning use of a competitive process, and unfairly favors incumbent vendors with its "single source" procurement methodology. As a result, for example, for 16 years Rutgers awarded a contract for parking services for its basketball and football games to the same vendor on the faulty basis that it was a unique service that could not be competitively bid.

Similarly, in its procurements concerning capital projects, Rutgers restricts competition by requiring a separate prequalification of contractors independent of the State process, and by limiting bidding to pre-selected firms.

We found that after more than $35.7 million in costs, $23.2 million more than the original contract amount, the University's implementation of RIAS still is not complete. Rutgers' contract management practices contributed to this project's cost overruns and extended the implementation timeline.

We also found that controls over Rutgers' cash management system and disbursement process need to be strengthened.

We make 18 recommendations to improve Rutgers' procurement and related contracting processes, to foster competition in the University's selection of vendors, and to strengthen controls over the financial management areas we reviewed. We recommend specifically that the State Legislature and Governor, as well as the University itself, consider requiring Rutgers to follow public bidding requirements imposed on other New Jersey State colleges and universities.

AUDIT FINDINGS AND RECOMMENDATIONS

Exemption from Public Bidding Requirements

Rutgers' exemption from the State's public bidding requirements has resulted in a lack of commitment to a competitive purchasing process, and has limited competition to a restricted vendor pool.

Originally a private institution, Rutgers became a State university in 1956, through an act of the State Legislature, *N.J.S.A.* 18A:65-1 et seq. This statute makes no reference to the public bidding requirements that State law imposes on other public colleges and universities. As a result, following its change in status, Rutgers successfully litigated an attempt to impose bidding requirements on the University by the then Attorney General. Therefore, under current law, bidding requirements applicable to other State departments, agencies, colleges, universities and other instrumentalities do not apply to Rutgers.

Instead, Rutgers maintains internal policies to govern its purchasing. Among them is Rutgers' Purchasing Policy (Policy), which sets forth the University's intent to procure goods and services on a "fair, competitive and equitable basis." Our review found, however, that Rutgers' implementation of the Policy restricts competition by limiting the number of firms invited to bid, negotiate or supply quotes. The Policy permits development of a vendor and supplier database and then only selected pre-approved vendors receive solicitations for bids and proposals. These policies and practices run counter to the "basic tenet of public procurement" that unrestricted competition "reduces the opportunity for favoritism and inspires public confidence that contracts are awarded equitably and economically."[2]

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[2] Model Procurement Code § 3-201, Commentary ¶ 3.

Rutgers further limits competition by reserving the right to establish noncompetitive negotiated agreements with any vendor when deemed to be in the best interest of the University. According to Rutgers' Executive Director of Purchasing, he alone exercises the discretion to determine Rutgers' best interests when exempting agreements from competition.

Thus, while Rutgers' Policy and related guidelines refer to competition and openness, the ability to bypass those stated policies is not governed by any controls or standards. As explained in the ensuing sections of this report, the result is a closed system lacking true competition.

Rutgers' unilateral authority to exempt contracts from competition differs significantly from the rules imposed on other public institutions of higher education in New Jersey under the State College Contracts Law, *N.J.S.A.* 18A:64-55(a). These other State colleges must publicly bid contracts with a value expected to exceed $30,100.

Objective factors indicate that Rutgers is a public entity like the other colleges and universities in the State system. Factors supporting this view include:

- Rutgers' records have been deemed by courts to be public records.

- Rutgers is considered a public entity for purposes of New Jersey's Tort Claims Act, which immunizes State agencies and local governments from legal claims under certain circumstances.

- Rutgers is not subject either to local property taxes or to State sales taxes.

- Rutgers is not subject to local zoning regulations with regard to facilities involved in the provision of educational services.

- Rutgers receives substantial taxpayer funds from the State. As noted previously, State appropriations and State-paid fringe benefits amounted to $450 million in FY 2009.

- Rutgers is considered a public sector employer for purposes of collective bargaining laws.

- The vast majority of Rutgers' employees are included in the State pension system.

Accordingly, State policymakers should consider whether Rutgers – given its public entity status and the substantial State appropriations directed toward its operations – should become subject to the State's public bidding laws as a means to address many of the deficiencies discussed herein.

Recommendation

1. The Legislature and Governor, as well as the University itself, should consider imposing on Rutgers a requirement to follow State public bidding requirements.

Contracting Practices

Rutgers' Purchasing Policy fails to promote competition and fairness in the procurement of goods and services.

As noted previously, Rutgers' Policy sets forth a stated goal of securing goods and services on a "fair, competitive and equitable basis." We reviewed the Policy and its implementation through a sample of 25 single or sole source purchases, valued at $7.1 million, and a sample of 11 negotiated contracts valued at $5.5 million. Additionally, we examined the University's contracting process for 9 capital improvement contracts collectively valued in excess of $119 million. We also reviewed three employment-related contracts entered into by the University. Our reviews revealed a lack of controls in the policies and guidelines governing the contracting processes along with a failure to enforce provisions of the Policy. These deficiencies have resulted in non-competitive procurement practices.

Pre-Approval of Vendors

As opposed to a focus on advertising for bids, Rutgers' Policy sets forth a system for purchasing that depends upon the creation of lists of "pre-approved" vendors. Criteria for such pre-approval include factors such as the background of a firm, its expertise, references and interviews, and performance on previous projects. This approach to purchasing differs from the requirements of the State College Contracts Law, which generally requires broad-based advertisement of a bid opportunity without regard to any pre-approval process. In requiring pre-approval, rather than advertising, the Policy limits competition.

We reviewed lists of vendors created by employees of the Purchasing Department referred to within the University as "buyers." The Purchasing Department authorizes these buyers to preapprove vendors and make purchases on the University's behalf. We interviewed several of these buyers to understand the pre-approval process. Our review found that there is no centralized pre-approval process. Instead, individual buyers create their own spreadsheet lists of preferred vendors. These lists contained minimal references to the Policy's stated criteria for pre-approval. Some lists reflected the reasons for pre-selection of vendors by notations such as "googling," "top manufacturers," and "recommendation by" another individual. Another list identified vendors invited to present proposals concerning items such as office supplies (ten vendors) and janitorial services (four vendors), but contained no reasons why these few vendors were selected to participate.

In interviews, one buyer stated that he selects vendors for the list based on previous bids, referral by the particular department placing the order or by identification of vendors through the internet. Another buyer simply responded, "Buyers know who to use."

These interviews and related documentation reveal that in practice the University has adopted an ad hoc approach to vendor selection without adequate documentation, rather than the criteria-based process described in the Policy.

Waivers from Competition

The Policy requires formal competition among multiple pre-approved vendors for purchases of goods and services over $40,000, unless a waiver from competition is granted by the Purchasing Department. Such waivers may be granted in situations involving sole source, single source or emergency procurements when it is necessary or appropriate. The Policy defines "sole source" as a situation in which only one vendor is capable of providing the good or service. "Single source" covers instances in which multiple sources can supply the good or service, but "for specific reasons" the good or service should be purchased from a particular vendor. The Policy does not define the "specific reasons" that would justify a "single source" designation. Contracting laws that apply to other public entities in New Jersey recognize the "sole source" waiver, but not a "single source"-type waiver.

We examined 25 single and sole source purchases by the University to determine the adequacy of the justification and approval process for the waivers. Our review of the 25 purchases found that 9 were adequately justified. (For three files, no waiver was necessary even though one had been granted.) Six files were missing the required waiver form entirely. The remaining ten waivered purchases contained one or more inadequate or inappropriate justifications such as:

- One sole source waiver justified a $325,000 non-competitive contract for a firm to provide parking management services during University basketball and football games. This same vendor has held the parking service contract for 16 years without competition. The waiver form characterized parking management as a unique service for which competitive bids could not be solicited. However, our research discovered at least four other local vendors that offer parking management services for sporting events. The waiver form also called for an explanation as to why the agreed upon price for the service was "fair and reasonable." In this instance, the response stated that the cost of the parking services compared favorably with "hotel rates" listed on the University's travel web site. This non-sequitur may have escaped notice because the person asking for the waiver was the same person who approved the request.

- Another waiver form justified a $281,437 noncompetitive contract for the design and installation of audiovisual equipment as a "unique service." The form did not explain the manner in which the service was purportedly unique, but instead noted the University's prior relationship with the vendor. The waiver form recited that the price for the installation was "equal or lower than those offered to any government agency," but did not compare specific prices.

Our review also found that the form used in the waiver process contains pre-printed reasons to justify pricing, but does not provide an opportunity to adequately explain unique situations. For example, one pricing justification for an "SPR Bio Sensor" checked off the box for "quoted prices are lower than prices available to the general public and reflect a substantial savings." Other documents clarified, however, that the savings merely reflected a discount for purchasing a used demonstration unit. Another form included a box checked off for "catalog or standard price list for items sold to the general public in substantial quantities," but the $283,636 purchase order actually pertained to a custom-built item, specifically a micro Electron Deposition Machine. Changing the form to permit more detailed and precise reasons for waiving competition and to allow accurate descriptions concerning pricing would provide greater transparency and accountability.

In December 2008, Rutgers sought to control the use of waivers by issuing a new policy (Policy 20.1.16) that requires approval by the Board for any "no-bid/sole or single source" contract in excess of $1 million. In contrast, other State Colleges require board approval of waivered contracts in excess of the bid threshold of $30,100.

Because waivers from competition permit the University to negotiate with only one vendor, failures to fully document and thoughtfully approve waivers enhance the danger that contracts may be steered to favored vendors to the financial detriment of taxpayers and tuition-payers.

Negotiated Contracts

Rutgers' Policy also permits the non-competitive negotiation of contracts when to do so is in "the best interest of the University." The Policy does not define “best interest,” but requires Director of Purchasing approval for such purchases. We reviewed 11 of these negotiated contracts with a total value of $5.5 million.

In each instance, our review found no documentation justifying negotiation as opposed to use of a competitive process. We also found that the University could have used a competitive process for a number of these contracts.

For example, Rutgers negotiated with a single vendor for air charter agreements for the men’s football team away games. Specifically, Rutgers paid $429,813 for roundtrip flights for four away games during the 2008 football season. No evidence revealed an attempt to solicit other quotations for the flights from Newark. Our auditors identified three other major carriers in Newark that provide such charter services.

Rutgers also negotiated a contract with a local hotel for accommodations for Rutgers’ football players for seven home games during the 2009 football season. Rutgers reserved a maximum of 63 rooms and several suites and paid for 6 meals per person for a total cost of $273,000. The file did not contain evidence of price comparisons with other local hotels.

Similarly, Rutgers paid one vendor more than $1 million for “locksmith and security” supplies without soliciting other bids. Our research found several Federal Supply Schedules carrying locksmith and security supplies and four catalog distributors of similar supplies. It is unclear, and not documented, how negotiating a non-competitive agreement for these products was in the “best interest of the University.”

Although in December 2008 the University adopted the aforementioned policy (Policy 20.1.16) to require Board approval for waivers of competition for large single-source, sole-source and similar contracts, other non-competitively “negotiated contracts” are not explicitly covered by that policy.

Contracts with Vendors Related to University Employees

The Policy prohibits purchasing from "vendors that are wholly or partially owned by university employees or their immediate family members." However, the Policy provides the University's Director of Purchasing with the authority to approve such purchases provided competition is used in selecting the vendor. We were unable to determine whether the University's contracts for goods or services generally complied with this nepotism prohibition since in most instances Rutgers does not require the disclosure of ownership information from vendors seeking contracts.

We received, however, two separate allegations concerning University contracts with vendors owned by a relative of a Rutgers' employee. Each complaint alleged that the employee worked in the University department that made the purchases. As part of our audit, we reviewed purchases made from these vendors and investigated their business ownership. We confirmed that owners of the two vendors were, in fact, spouses of Rutgers' employees. When we brought this matter to the attention of Rutgers' officials, they informed us that they were aware of these conflicts and that the University's Internal Audit Department had investigated both situations. The officials admitted that the Director of Purchasing had not approved either of the purchases in question.

The University's investigation of one of the complaints resulted in disciplinary action for the employee who had approved the contract. The discipline consisted of a decrease in employee classification, salary and responsibility. The employee related to the vendor similarly received a letter of reprimand. However, in the second situation, no one was disciplined. Instead, the University addressed the violation by cancelling the contract and creating a temporary employment position for the employee-related vendor. This resolution raises questions concerning the vigor and fairness with which the Policy is being enforced. We are referring this matter to the State Ethics Commission for further review.

Rutgers' officials informed us that the University is strengthening its ethics training so that it includes discussion of the prohibition against using vendors owned by a Rutgers employee. To facilitate enforcement of the Policy, Rutgers should adopt the disclosure requirements applicable to other State contracting entities. Specifically, State law prohibits the award of contracts by public entities unless the vendor discloses ownership information with its bid or proposal. *N.J.S.A.* 52:25-24.2. Adoption of this practice would enable Rutgers to enforce the Policy and provide greater transparency in its contracting process.

Capital Contracts

We also reviewed nine University contracts for the provision of construction, design-build, architectural and engineering services for capital projects, totaling over \$119 million and with award amounts ranging from \$1.5 million to \$39 million. We found that, as explained below, Rutgers limits competition in its procurement of such services by soliciting bids or proposals from only a small portion of its own list of prequalified vendors.

As required by statute, the State's Division of Property Management and Construction (DPMC) has developed a prequalification system for contractors and design professionals for public works projects. In addition to its use on the State level, this system is widely utilized by New Jersey local governments and school districts. Rutgers does not use this prequalification system, nor is it required by law to do so. Instead, Rutgers uses its own prequalification process to determine a contractor's ability to perform.

DPMC qualifies contractors and design professionals biannually and considers factors such as financial status, experience, adequacy of equipment, past performance and a record of all work completed within the last five years. In prequalifying vendors, DPMC assigns a code that describes the type of work a contractor may perform and sets a limit on the dollar amount of public works contracts that the contractor may perform at any one time. DPMC provides a public hearing to applicants denied prequalification.

The similar process utilized by Rutgers includes an interview of the contractor's personnel, a review of the firm's credentials, and an evaluation of prior experience and bonding capacity. Two internal University committees and the Board must approve the applicants. Rutgers has no system to provide a hearing for applicants denied prequalification. Rutgers' officials told us they do not recall ever rejecting a firm.

We compared the number of firms prequalified under each system. DPMC's widely known statutory prequalification system results in a greater number of prequalified contractors. Specifically, the DPMC database for general construction and design-build services includes 271 prequalified firms, compared with 151 firms prequalified by Rutgers. Thus, by using the DPMC database, Rutgers would nearly double the number of firms available to compete for its capital construction contracts. In our view, the separate prequalification requirements unnecessarily duplicate efforts, impose burdens on market competition and ultimately increase the cost of doing business through restricting market forces.

Moreover, Rutgers does not permit all of its prequalified contractors to bid on its capital projects. Instead, Rutgers selects a small number of firms from its prequalified lists and permits only the selected vendors to submit bids or proposals. Thus, for example, although there are 151 prequalified construction and design-build firms in total, only six to ten contractors typically are invited to bid on a University construction contract. This practice further restricts competitive marketplace forces. It also raises the question why Rutgers requires firms to prequalify, since it does not invite the vast majority of them to bid.

The University's "Guidelines for Capital Construction Bidding and Award Process" and a flowchart document titled "Capital Design and Construction Project Process" govern the University's procurement of services for capital projects for which the estimated budget equals or exceeds $2 million. Nothing within those Guidelines or the flowchart details how Rutgers selects firms to submit bids or proposals for a particular project. Our review revealed that many of the same firms were repeatedly chosen to bid. For example, for the 5 construction contracts we reviewed, a total of 31 firms from the list of 151 were asked to submit bids. Of these 31, Rutgers asked 10 firms to bid on more than one project. We also examined two design-build and two architectural and engineering procurements. These procurements similarly limited the vendors solicited to a select group of firms.

Rutgers informed us that firms are selected to submit bids for construction projects on a "best-fit basis," requiring consideration of the type of construction, estimated construction cost, contractor experience and project timeline. We found, however, that Rutgers does not document how it determines "best fit" for particular contracts. Failure to document decision-making in public contracting permits an inference of a closed system that favors certain contractors.

When we questioned University staff about these limitations on competition, they explained that limiting competition allowed staff to be more efficient in reviewing a smaller number of bid submissions. This reasoning does not persuasively apply to construction projects, however, because the University need only review the submissions of the lowest bidders for responsiveness to the solicitation's requirements. Moreover, for projects requiring an evaluation of factors other than cost, Rutgers should consider advertising a request for qualifications that would competitively limit the number of firms ultimately solicited. If an organized and appropriate process is used, the burden of evaluation would not be onerous.

We also reviewed the University's documentation concerning its ultimate selection of vendors in design-build and architectural and engineering contracts. The University's practices conformed with best practices in this regard, including the use of scoring sheets with explanations. Although award memoranda were not utilized, the underlying scoring was documented so no further justification was necessary to explain the award.

Employment Contracts

As part of our preliminary inquiry, we had requested the compensation agreements between Rutgers and the head coaches of its intercollegiate sports teams. We also requested the University's guidelines concerning compensation of those coaches. Our audit focused on the approval processes for head coaches' employment contracts and amendments to those contracts, and the degree to which the University's governance organizations and personnel, outside of the Athletics Department, approved or were informed of the terms of those contracts.

Rutgers' Board has the sole power to determine University employee salaries and to adopt salary schedules. *N.J.S.A.* 18A:65-25(h). To meet these duties, the Board utilizes committees such as the Committee on Intercollegiate Athletics (Committee) to report to it on personnel matters such as employment contracts. For example, in 2005, the Board charged the Committee to "protect the fiduciary responsibilities of the Board" by "receiving reports from the Director of Athletics on critical personnel and operational matters," including "significant contracts or amendments thereto." The charge did not require the Committee specifically to pre-approve or ratify decisions regarding coaches' compensation. In practice, discretion to approve contracts of even high-level athletics personnel was vested exclusively with Rutgers' Director of Athletics.

During 2007 and 2008, the University's contracts with its three most highly paid head coaches were extended and, in two instances, modified to provide greater compensation. We reviewed meeting minutes of the Board and the Committee during this time period and conducted interviews of two Board/Committee members to determine the extent to which these governing bodies were involved in the changes. Our review determined that there was no pre-approval, ratification or full knowledge by the Committee or the Board of any of these contract changes. The Committee was, at most, informed of the general nature of changes to the contracts, but that did not include discussion of specific dollar amounts. In connection with one of the amendments, the Committee chair passed along the information provided to the full Board.

Following a series of newspaper articles in the summer of 2008 that revealed these previously undisclosed financial agreements, Rutgers' President requested a review of the operations of the Athletics Department by an ad hoc committee of nine individuals. Following that review, as reflected in a revised Board charge to the Committee and a Board-approved policy adopted during the course of our audit, the Committee now recommends to a separate Board committee "the salaries (including any contract renewals or changes or additions to the employment contracts) for high-level athletics personnel in the Division of Intercollegiate Athletics or any other athletics employee whose proposed total compensation exceeds $300,000." Changes to such contracts must be approved prior to implementation by both of these committees. In addition, to the extent that athletics coaches' total compensation exceeds the salary of the University's President, the Board itself must approve those contracts. These procedures should provide improved transparency concerning these significant employee-related expenditures.

Recommendations

2. Revise the Policy to enhance competition for contracts exceeding $40,000 by requiring advertising without limit to pre-approved vendors.

3. Revise the Policy to define the criteria that permit non-competitive negotiated contracts as a procurement method.

4. Require documentation explaining the reasons for each non-competitive negotiation or other waiver from a competitive vendor-selection process.

5. Ensure that the Board of Governors approves any non-competitive contract exceeding $1 million.

6. Enforce the Policy addressing waivers from competition for sole source and single source contracts.

7. Require each vendor to submit an ownership disclosure form to facilitate enforcement of the Policy concerning the award of contracts to employees and related parties.

8. Utilize the DPMC system for prequalification of contractors, architects, engineers and other construction professionals.

9. Monitor adherence to revised Board policies concerning approval of employee contracts.

Quick Orders

The University repeatedly has misused the Quick Order process.

Rutgers defines a "Quick Order" as a purchase that does not exceed $5,000 and therefore does not require submitting a requisition to the University's Purchasing Department for review and approval. These payments are processed without the University's typical set of internal controls, such as requiring a secondary review of items being purchased and a certification that the goods or services were received. In accordance with Rutgers' Policy, Quick Orders cannot be used for certain goods and services including consulting services, biological and hazardous substances, advertisements, certain types of equipment, furniture, carpeting, window treatments, signage, plaques to be affixed on buildings, graphic design services, inspection services, leases, legal services and lobbyists.

For FY 2008, we identified 2,654 quick orders that were processed for prohibited items totaling over $3.4 million, as follows:

Expense Category	Amount
Consulting Services	$1,344,638
Advertisements	678,620
Graphics and Signage	431,424
Renovations	342,178
Furniture	243,496
Leases	128,091
Carpeting	97,485
Fire Suppression Materials	67,168
Window Treatments	45,312
Equipment	10,017
Legal Services	5,355
Graphic Design Services	1,804
Plaques	1,506
Total	$3,397,094

For example, the consulting services ranged from marketing and press-related services to providing assistance in developing grant proposals. These categories of purchases violated Rutgers' Policy and should have been procured using a purchase order.

We also found that the University has been using Quick Orders when a series of purchases from the same vendor exceeds $5,000. For example, in FY 2008, eight departments used Quick Orders for purchases from a local vendor supplying a variety of items/services to Rutgers including camera accessories, frames, framed certificates and photo processing services totaling more than $19,000. The Athletics Department alone made over $13,000 in purchases from this vendor. Although each purchase fell within the allowable amount for a Quick Order (less than $5,000), during the course of the year Rutgers paid well over that amount to the vendor. Rutgers should have negotiated a discount pricing agreement with the vendor as a means to leverage its full buying power.

Similarly, in FY 2008, Rutgers used 11 Quick Orders totaling $27,861 for hood and exhaust fan cleaning service from a single vendor. The service was performed on five days. The work completed on one of those days totaled $11,256 and was split between three Quick Orders, even though that would appear to be precluded by the Policy. The work on another day totaled $8,053 and was split between four Quick Orders. Based on the nature and the schedule of the work, these services should have been procured through a competitive contracting process. The Purchasing Department could not explain why there was no competitive vendor selection process for these services.

For FY 2008, Rutgers' computerized administrative system reflected a total of 74,184 Quick Orders in the collective amount of $50.4 million. To test the extent to which those Quick Order purchases followed Rutgers' Policy, we judgmentally selected a sample of 52 items totaling $131,454. Of the 52 items tested, 22 complied with Rutgers' Policy. The other 30 items, totaling

$105,525, were not in compliance with the University's criteria for Quick Orders or with other University policies and procedures, as follows:

- Documentation concerning 23 items, totaling $70,259, indicated that orders had been split to circumvent the Policy threshold of $5,000. In some instances, multiple Quick Orders were used for the same project, with the same budget code, with each order created the same day.

- 4 items, totaling $11,118, did not have adequate supporting documentation. For example, 2 items were missing the proposal mentioned in the invoice as the basis for the charges.

- 1 item for $3,546 was processed for payment even though it read: "Do not pay. Credit memo attached."

- 1 item showed an invoice amount of $1,947 but the only supporting documentation attached was a change order for $3,358. No purchase order was attached.

We note that the State's other public universities impose tighter controls over such noncompetitive purchases. For example, all purchases at the New Jersey Institute of Technology and the University of Medicine and Dentistry of New Jersey are required to be completed by their purchasing departments.

Recommendations

10. Monitor adherence to the University's policies and procedures that limit the use of Quick Orders.

11. Attempt to negotiate discount pricing agreements with vendors being paid substantial amounts by the University as a result of bulk or repetitive purchases.

12. Require the Internal Audit Department to periodically review Quick Orders to determine whether they are being used in accordance with University Policy.

Rutgers Integrated Administrative System

Cost overruns and technical difficulties continue to plague the RIAS project.

In 1999, Rutgers sought to contract for the installation of new computer software designed to create a University-wide administrative system named the Rutgers Integrated Administrative System (RIAS). Through this procurement, Rutgers sought to integrate and replace outdated computerized systems and systems requiring paper recordkeeping.

In 2007, the State Commission of Investigation (SCI) issued a report on higher education in New Jersey entitled, *Vulnerable to Abuse – The Importance of Restoring Accountability, Transparency and Oversight to Public Higher Education Governance.* Concerning Rutgers, that report discussed, among other issues, cost overruns and implementation delays related to RIAS. As part of our audit, we reviewed more recent progress made by the University in implementing RIAS.

Three years after the SCI report was issued, implementation of RIAS still is not complete. Rutgers now intends to pay its vendor a total of $35.7 million, an increase of $23.1 million or 185 percent over the original contract amount of $12.5 million. Even this expenditure will not result in completion of all of the work included in the original contract.

The RIAS project began in 1995 with the formation of an internal Rutgers team that recommended, in view of the complexity of the undertaking, implementing RIAS in stages. However, that recommendation was not followed. Instead, Rutgers sought a vendor to complete the implementation within two years without any staging. In 2000, Rutgers awarded the resulting contract, which proposed installing 14 separate software applications to integrate the University's systems. Work was halted, however, after the implementation of 3 of the 14 applications. University officials explained to us that the University concluded at that time that the project was simply too large to be completed in two years.

Because the vendor was unable to complete the contract to install the 14 software applications, additional contracts have followed. In 2006, Rutgers issued a request for proposals for the installation of 1 of the remaining 11 software applications. Rutgers awarded this follow-up contract to the same vendor for $1.8 million. Subsequent contract revisions brought the total expenditures on this contract to $2.4 million.

In late 2008, Rutgers again chose to contract with this same vendor, this time for the implementation of six of the remaining ten applications, at a cost of $16.7 million. Rutgers later replaced two of the six applications, paying the vendor an additional $1.5 million.

Neither available documents nor Rutgers officials we interviewed were able to provide adequate justification for the University continuing to make additional payments to a vendor for work it committed to complete a decade ago. The protracted and costly effort by the University to implement the RIAS project brings into question the University's contract planning and management processes. As our audit concluded, four of the applications purchased under the first contract in 1999 still have not been installed.

Our information technology auditors also identified issues concerning the security of RIAS. Due to the security-sensitive nature of these findings, we are not including them in our public report. Instead, we provided them to Rutgers under separate cover along with our related recommendations.

Recommendations

13. Develop a comprehensive plan concerning implementation of the remaining RIAS applications, considering the cost-effectiveness of various options and the business justification for remaining implementations.

14. Implement the recommendations concerning information technology security measures that were provided to Rutgers' officials under separate cover.

Financial Management Practices

The University's controls over certain areas of financial management need to be strengthened.

<u>*Cash Management*</u>

Cash management policies and procedures should include appropriate controls. Objectives of an effective cash management system include, among others:

- collecting and depositing revenues in a timely manner;
- complying with applicable laws, regulations, policies and guidelines;
- ensuring that cash is protected from fraud, waste and abuse; and
- effectively monitoring and reviewing cash activities.

Rutgers maintains 24 bank accounts for its general operations. The accounts are reconciled manually by four employees referred to by Rutgers as "bank accountants." We reviewed 3 of the University's 24 bank accounts and found that the bank reconciliations for the month we reviewed were all reconciled and completed within the eight-week time frame required by Rutgers' cash management policies. Also, in accordance with the State's Uniform Unclaimed Property Act, *N.J.S.A.* 46:30B-1 et seq., there were no checks outstanding for more than three years for the three accounts we reviewed. We found, however, that although Rutgers purchased the Cash Management application (which includes an automated bank reconciliation program) as part of the RIAS implementation in 2000, this application has yet to be installed or implemented.

To reconcile the bank statements each month, the bank accountants receive, along with the deposit paperwork, a Notification of Incoming Electronic Funds Transfer (NIEFT) form. This form notifies the accountant that incoming funds are expected to be received either via Electronic Funds Transfer (EFT) or the Automatic Clearing House, and to which general ledger account the deposit should be posted. We found that departments do not always send the NIEFT form to the bank accountant in a timely manner, precluding the accountant from verifying and posting the deposits. For example, for one of the three bank reconciliations we reviewed, the prior month's deposits had not yet been recorded in the general ledger. These deposits totaled $1,119,499. In addition, the current month's deposits of $175,568 had not yet been recorded.

Policies and Procedures

Written and enforced policies and procedures are important in maintaining an effective system of internal control. Such policies and procedures should be formally communicated to staff and periodically updated to reflect changes in fiscal and operating practices.

We reviewed all 19 of the University's policies and procedures governing its financial management functions. Of these, 11 were obsolete, outdated and/or had not been updated to reflect the RIAS implementation. For example, the "Cash Handling-Policies and Procedures for Receipt, Deposit, and Security of Cash" is lacking procedures for handling EFTs. Similarly, the "Invoice Processing" policy has not been updated since September 29, 2000. Despite its title, it does not contain any specific details concerning the flow of documents or procedures concerning the review and approval of invoices.

In April 2008, Rutgers' Internal Audit Department reported that the RIAS Implementation Team "has not yet formally documented internal controls for all accounting processes that will change . . . once the new general ledger module and redesigned financial data warehouse are implemented." The Internal Audit Department recommended to the University Controller "completing the documentation of these controls prior to the go-live date" in July 2008. Nonetheless, the internal control documentation still has not been completed.

Business Offices

Numerous internal business offices located throughout Rutgers are responsible for completing purchase requisitions for the University. However, Rutgers neither maintains a list of these business offices nor a list of the names of the business managers assigned to those offices. This lack of a defined organizational structure can lead to waste and inefficiency, and the inability to effectively monitor fiscal operations.

Recommendations

15. Using the software already purchased, automate the bank reconciliation process to increase the efficiency of operations.

16. Develop a clear policy that lists necessary procedures regarding cash deposits, reconciliations and the transfer of information to the University's bank accountants.

17. Periodically update policies and procedures to reflect the current operating environment including RIAS and any subsequent modifications to RIAS.

18. Maintain a comprehensive, up-to-date list of all business offices, their functions, location and staff assigned.

REPORTING REQUIREMENTS

We provided a draft copy of this report to Rutgers' officials for their review and comment. Their comments were considered in preparing our final report and are attached as Appendix A.

Rutgers' response did not agree with some of our conclusions, particularly concerning the University's lack of commitment to a competitive purchasing process. Overall, however, Rutgers concurs with 16 of our 18 recommendations and has pledged that they have been or will be adopted.

In its response, Rutgers offers several assertions concerning successes in obtaining favorable pricing for particular goods, and in delivering capital projects without "material delays, deficiencies, or budget variances." In particular, concerning the RIAS project, Rutgers points to other universities that have spent more than $50 million on an ERP system. As the particulars of these examples were not provided to us during the course of the audit, we are unable to comment on them. However, they would not change the overall conclusion to which the results of our testing led us; that is, to promote full and open competition, all vendors should be permitted to compete, and that a larger vendor pool typically increases the quality of competition and pushes competing vendors to offer their services at lower costs. These points are widely recognized by authoritative sources and are discussed in the Office of the State Comptroller's report entitled, *Best Practices For Awarding Service Contracts,* issued in March 2010. We encourage Rutgers to consider the merits of that report.

The Office of the State Comptroller is required by statute to monitor the implementation of our recommendations. To meet this requirement, Rutgers shall report to the Office of the State Comptroller within 90 days of the date of this report, the corrective action taken or underway to implement the recommendations contained in this report and, where not implemented, the reason therefore. *N.J.A.C.* 17:44-2.8(a).

RUTGERS

SENIOR VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

December 20, 2010

William P. Challice, CIA, CFE, CGFM
Director, Audit Division
Office of the State Comptroller
P.O. Box 024
Trenton, NJ 08625-0024

Dear Mr. Challice:

Please find enclosed the University's response to your performance audit of Rutgers, The State University of New Jersey covering contracting and selected financial management practices for the period July 1, 2007 to October 28, 2010.

Given the depth and breadth of your audit, we are pleased that the audit did not reveal any instances of waste, fraud or abuse. Rutgers takes its financial stewardship responsibilities very seriously and is fully committed to following the best contracting and financial management practices possible given its unique status as the State University of New Jersey.

With regard to the 18 recommendations contained in your report, many of them are consistent with our own management standards and have already been (or will be) adopted by the University. For example, the University adopted a new policy on the approval of employment contracts that was followed in the successful and transparent process used to hire the new men's basketball coach in May 2010. Similarly, the University adopted a new policy requiring Board approval for negotiated contracts in an amount of $1 million or more. However, we do not concur with the finding that "Rutgers' exemption from the State's public bidding requirements has resulted in a lack of commitment to a competitive purchasing process, and has limited competition to a restricted vendor pool." As we explain in our attached response, we believe that the University's extensive procurement and contracting processes foster an open, fair, efficient, and effective competitive bidding environment that has consistently yielded higher quality results at lower costs.

Sincerely,

Bruce C. Fehn

Bruce C. Fehn
Senior Vice President for Finance and Administration

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RUTGERS, THE STATE UNIVERSITY OF NEW JERSEY

RESPONSE TO THE REPORT OF THE STATE COMPTROLLER CONCERNING CONTRACTING AND SELECTED FINANCIAL MANAGEMENT PRACTICES

INTRODUCTION

Thank you for the opportunity to respond to the findings and recommendations contained in the Office of the State Comptroller's December 2010 report entitled "Rutgers, The State University of New Jersey—Contracting and Selected Financial Management Practices."

Rutgers takes its financial stewardship responsibilities very seriously and is fully committed to following the best contracting and financial management practices possible given its unique status as the State University of New Jersey. The University's policies and procedures are designed to ensure that procurement activities are conducted in ways that promote competition, equity, and fairness while ensuring that Rutgers receives the highest quality products and services at the best possible price. Moreover, as a major recipient of federal grants and contracts, the University's procurement procedures are also structured to meet federal procurement standards.

The Office of the State Comptroller (OSC) conducted fieldwork for this performance audit from January 2009 through October 2010. The University cooperated fully in this audit and, during the course of this 22-month review, the eight-member OSC audit team was given unrestricted access to information contained in the University's accounting and purchasing systems as well as thousands of pages of documentation and data supporting the University's policies, procedures, contracts, and transactions. Rutgers officials and staff members devoted thousands of hours of time to responding to questions, explaining policies and procedures, and gathering requested information, while continuing to perform their normal duties.

Given the depth and breadth of this examination, the University was very pleased to see that the audit did not reveal any instances of waste, fraud, or abuse. Of the 18 recommendations, 16 are consistent with Rutgers' own management standards and have already been (or will be) adopted by the University. As we explain in this response, the University's extensive procurement and contracting processes foster an open, fair, efficient, and effective competitive bidding environment that has consistently yielded high quality results at competitive prices.

GENERAL COMMENTS ON RUTGERS

Rutgers became the State university in 1956 through a unique piece of negotiated legislation, N.J.S.A. 18A:65-1 et seq. The "Rutgers" statute of 1956 represents a carefully considered compact between the State and the Board of Trustees of Rutgers (which had to approve the arrangement), whereby Rutgers transitioned from its long-time status as a private institution to become the State's comprehensive public research university. The statute deliberately preserved a high degree of autonomy for Rutgers in light of its unique history and relationship to the State. Unlike New Jersey's other colleges and universities, Rutgers has its own governance structure with a Board of Trustees, which retains authority over assets held by the University as of August 31, 1956, and a Board of Governors, five of whom are appointed by the trustees and six of whom are appointed by the governor. A legally autonomous entity, Rutgers is responsible for its own financial, legal, and corporate oversight. For example, Rutgers issues its own bonds and has its own bond rating separate from the state.

This partnership has served the state well. In the last 60 years, Rutgers has grown into an academic powerhouse with an international reputation for excellence. It is the only public university in New Jersey to earn entry into the prestigious Association of American Universities, which comprises the top 63 research universities in North America. The University's autonomy has also allowed Rutgers to become a global leader in "green purchasing," promoting environmentally sound business practices beneficial to the University community, the state, the nation, and the world. Rutgers' Director of Purchasing received an Environmental Excellence Award from the New Jersey Department of Environmental Protection in 2006 in recognition of his leadership in this area.

Rutgers is a large, comprehensive institution with more than 56,000 students and 13,000 employees located on campuses in New Brunswick, Piscataway, Newark, and Camden. The University also operates research and extension facilities in virtually every county in the state. The University's operating budget in Fiscal Year 2009 was in excess of $1.6 billion, with revenues coming from a variety of sources, including student tuition and fees, state appropriations, federal appropriations as the State's land grant institution, state and federal grants and contracts, private gifts and grants, endowment and investment income, licensing agreements, and other miscellaneous sources.

In the Background section of their report, the auditors state that the University incurred an ***operating loss*** of $420 million in 2009, which could be extremely misleading to the uninformed reader. That loss characterization is based on a technical application of generally accepted accounting principles (GAAP), which require that the University ***exclude*** State appropriations as a source of ***operating revenues*** since they do not represent an amount paid for goods or services produced by the University. Under GAAP, State appropriations are considered non-reciprocal transfers that are reported as ***non-operating revenues***. Nevertheless, from a true budgeting and accountability perspective, the University consistently operates within a balanced budget model that includes State appropriations that are properly approved as a matter of public policy and State law. Indeed, State law mandates that the State provide resources and funds to Rutgers "adequate for the conduct of a State University with high educational standards and to meet the cost of increasing enrollment and the need for proper facilities" (18A:65-27.I.b.).

Financial policies and procedures at such a major educational and residential institution must support the diverse research, teaching, operational, and living conditions of a multifaceted community 24 hours a day, seven days a week, while conforming to the requirements and regulations of various funding agencies. During the timeframe covered by the report, for instance, Rutgers' 15 buyers processed more than 36,000 purchase orders and 700 requests for proposals and quotes. In addition, 79,000 orders were issued directly to contracted suppliers and 221,000 Quick Orders were executed. Similarly, during the last 10 years, Rutgers' facilities department oversaw the construction of $1.7 billion worth of projects. Rutgers strongly contends that the best way to ensure continued integrity and accountability in this complex fiscal environment is to maintain the autonomy that has worked so well for more than half a century, and that is mandated by law.

Here we offer our comments and responses to the report's findings and recommendations.

EXEMPTION FROM PUBLIC BIDDING REQUIREMENTS

OSC Finding:

Rutgers' exemption from the State's public bidding requirements has resulted in a lack of commitment to a competitive purchasing process, and has limited competition to a restricted vendor pool.

University Comments:

We strongly disagree with this finding. Although the University is not subject to statutory public bidding requirements,[1] the University is nevertheless fully committed to a fair and open competitive bidding process in order to get the most value from our limited operating resources. It is simply not in the University's best interests to narrow competition to a point where we would unnecessarily pay more for goods and services (of equal quality) that are otherwise available in the open market at a lower price. The University has in place specific policies, procedures, and administrative systems, as well as a team of procurement professionals aligned and dedicated to achieving fair and competitive results. Moreover, there is no evidence that the University's procurement process is vulnerable to corrupt influences or malfeasance on the part of our employees. And our independent and autonomous system has been successful in minimizing political influence or involvement.

[1] *See Rutgers, the State University v. Kugler,* 110 N.J. Super. 424 (Law Div. 1970), *aff'd,* 58 N.J. 113 (1971) (holding that Rutgers is not subject to state public bidding laws due to the institution's unique corporate history and legal status).

OSC Recommendation:

1. *The Legislature and Governor, as well as the University itself, should consider imposing on Rutgers a requirement to follow State public bidding requirements.*

University Response:

We cannot concur with this recommendation. As noted above, this recommendation is contrary to well established State law and fails to acknowledge the extensive infrastructure the University has in place to support competitive procurement activities. Nor have the auditors provided evidence that Rutgers' use of state bidding procedures would result in better goods and services at lower prices. Furthermore, the recommendation is inconsistent with many of the report's other recommendations, which we generally support, that are directed at improving certain aspects of the University's current internal procurement processes.

CONTRACTING PRACTICES

OSC Finding:

Rutgers' Purchasing Policy fails to promote competition and fairness in the procurement of goods and services.

University Comments:

We strongly disagree with this finding. Rutgers' purchasing department does have a commitment to competitive purchasing. In fact, we believe our purchasing process results in superior value and cost containment for the University while adhering to Rutgers' mission and preserving and extending the value of all external funding provided to the University.

The process that we follow for the procurement of goods and services is simple and straightforward. When a purchase requisition is received in our purchasing department, the designated buyer begins by searching State of New Jersey, federal, and cooperative higher education contract schedules for prenegotiated pricing on the particular item. If a price is available, the buyer will solicit quotes from the marketplace to see if he/she can obtain a more competitive price. The order will then be issued to the lowest priced vendor absent any other value considerations. If a prenegotiated price for the item cannot be found, the buyer will solicit quotes directly from market and issue to the lowest priced vendor absent any other value considerations.

Alternatively, for items that the University purchases routinely and in great quantity, the purchasing department solicits competitive pricing for its own prenegotiated contracts that are even more favorable than pricing available on State or Federal contracts. For example, the University recently conducted a Request for Proposal for office supplies. The University contract was awarded in August 2010 and the average discount off manufacturer's list price is 60% compared to the New Jersey State Contract discount of 45%. In another case, a University contract for office furniture was awarded based on an average 70% manufacturer's discount compared to the NJ State Contract manufacturer's discount rate of 40%.

When soliciting competitive bids, the University first develops a list of vendors that we believe are best qualified to provide the goods or services requested. The process of pre-qualification is considered a best practice in professional procurement because it improves efficiency by eliminating clearly unqualified vendors from the process. Bidders lists are established by our buyers utilizing various resources, including business directories, trade publications, manufacturers' lists of authorized distributors, professional purchasing associations, prior performance with the University, and recommendations from departments requiring the requested goods or services. Vendors may also ask to be added to lists.

With regard to capital construction contracts, the University also solicits competitive bids from a list of prequalified contractors. The process was approved by our Board of Governors and implemented as a method to help avoid a wide range of problems associated with poor performance on the part of unqualified or under-capitalized general contractors and subcontractors. Limiting the list of qualified bidders has other benefits as well, including: (1) is more efficient in that it affords the University a greater opportunity to carefully examine a fewer number of submissions; (2) improves the odds for a successful bid, thereby incentivizing contractors to (a) participate and (b) submit more competitive proposals; and (3) makes it easier for subcontractors and suppliers to participate in our projects by reducing the number of general contractors or professional firms that they need to approach for work opportunities. Accordingly, we continue to believe that this approach produces the best results as evidenced by our construction record over the last 10 years, wherein the University has undertaken and successfully delivered over $1.7 billion of capital projects without any material delays, deficiencies, or budget variances.

Finally, the University may negotiate contracts (including sole source contracts) directly with vendors without going through the competitive bidding process, when circumstances or requirements dictate that it is in the best interest of the University to negotiate directly in order to obtain the best combination of quality, price, and service. Negotiated contracts are not unique to Rutgers; they are used in all public sector procurement organizations, including federal state (including the State of New Jersey), county, and municipal governments, as well as schools, with great success.

The issues mentioned in the report related to athletics employment contracts date back to 2000 and were fully reviewed by a special independent committee (the Athletics Review Committee) appointed by the University President before this management audit began. The committee's recommendations were subsequently adopted by the University before this audit was completed. Accordingly, the University has strengthened Board of Governors oversight of employment contracts for coaches (and other highly compensated employees) as evidenced by both new policies and procedures and the process followed to hire the men's basketball coach in May 2010.

OSC Recommendation:

2. *Revise the Policy to enhance competition for contracts exceeding $40,000 by requiring advertising without limit to pre-approved vendors.*

University Response:

We do not concur with this recommendation. We do not believe that the additional costs incurred for the advertising will yield any more competitive results than what we are experiencing under our current processes.

OSC Recommendation:

3. *Revise the Policy to define the criteria that permit non-competitive negotiated contracts as a procurement method.*

University Response:

We concur with this recommendation and will define with greater precision the criteria that justify our use of this procurement method. In this regard, we will review the criteria used by state and federal government agencies for guidance as well as other authoritative sources for best procurement practices.

OSC Recommendation:

4. *Require documentation explaining the reasons for each non-competitive negotiation or other waiver from a competitive vendor-selection process.*

University Response:

We concur with this recommendation. Our current polices already call for the capture of this type of documentation on our "Request for Competitive Bid Waiver" form, but given the incomplete or deficient justifications noted in a few cases by the auditors, we will review, update, and enforce this policy within the University community. We will also review our sole and single source designation and will further define or consider eliminating the single source designation.

OSC Recommendation:

5. *Ensure that the Board of Governors approves any non-competitive contract exceeding $1 million.*

University Response:

We concur with this recommendation and affirm that RU Policy 20.1.16 applies to noncompetitive contracts of $1 million or more.

OSC Recommendation:

6. *Enforce the Policy addressing waivers from competition for sole source and single source contracts.*

University Response:

We concur with this recommendation. See also our response under recommendation #4 above.

OSC Recommendation:

7. *Require each vendor to submit an ownership disclosure form to facilitate enforcement of the Policy concerning the award of contracts to employees and related parties.*

University Response:

We concur with this recommendation. We will revise and add a new section to our Supplier Information form that will require vendors to disclose related party information, and then will enter that information into our procurement system. Vendors will also be required to notify the purchasing department as to any change in their status. We intend to implement this recommendation prospectively and as soon as we can add the necessary data fields to our system.

OSC Recommendation:

8. *Utilize the DPMC system for prequalification of contractors, architects, engineers and other construction professionals.*

University Response:

We will periodically review the Division of Property Management and Construction's (DPMC) system in an effort to identify contractors that can be qualified to bid on contracts at the University. However, the University will continue to rely on its prequalification method of developing a bidders list for each project for the following reasons:

- Rutgers maintains a complete profile on each general contractor that includes the AIA document A305 and a detailed history of the firm's experience. This information provides the selection committee with a firm's capabilities, experience, and references in greater detail than the DPMC list. This also serves to add incentives for firms to perform well and to remain in good standing with Rutgers.

- Rutgers has an extensive database on professional service firms that is updated continually.

- Rutgers' prequalified list is updated on a near annual basis and accepts updates from the contractors at any time. The DPMC requalification is performed once every two years. Rutgers' information is therefore more accurate and up-to-date than the DPMC's list, which is critically important in this changing climate.

OSC Recommendation:

9. *Monitor adherence to revised Board policies concerning approval of employee contracts.*

University Response:

We concur with this recommendation and are pleased to report that the revised Board policy RU 60.1.15 was in effect and followed in the successful and transparent process used to hire the new men's basketball coach in May 2010. The policy can be found under the following link: http://policies.rutgers.edu/PDF/Section60/60.1.15-current.pdf.

<u>QUICK ORDERS</u>

OSC Finding:

The University repeatedly has misused the Quick Order Process.

University Comments:

We disagree with this finding. The Quick Order (QO) process is designed to enable our purchasing staff to focus more of their attention on higher cost procurements where the opportunity for cost savings is greatest and other procurement risks are highest. The QO process enables end users to purchase goods and services (with certain limited exceptions) in amounts below the threshold without the approval of the Purchasing Department. The exceptions were put in place to give Purchasing (or another University department) the opportunity to review the purchase requisition for compliance with some secondary set of University requirements or standards. For example, if the purchase requisition was for employment advertising, the Human Resources Department would want to see that the proposed copy was consistent with their standards for these types of announcements. Similarly, if the purchase requisition was for graphics and signage, our Facilities Department would want to see that the proposed signage was consistent with University standards.

We acknowledge that the audit identified several instances where the University was not in compliance with its own policy concerning the use of QOs. However, the significance of these exceptions must be considered in the context of the total QO population. For example, in Fiscal 2008 the University issued 77,082 QOs for a total value of $63.4 million, of which the auditors identified 2,654 QOs issued for a total value of $3.4 million in prohibited commodity categories. The exception rate in terms of a percentage of purchase order numbers and purchase order dollars was only 3% and 5% respectively. Although a QO should not have been used in these instances, the purchases themselves were appropriate and justified. Based upon our investigation into the nature of the compliance exceptions, we believe that the system is working as intended, but we will continue to improve our monitoring of QO activity and our end-user training efforts on the proper use of QOs.

We also investigated the auditors' finding that 18 Quick Orders were prepared or approved by unauthorized individuals. We concluded that those individuals were properly authorized at the time of the transactions. The auditors apparently looked at the authorization file at a date subsequent to the date of the transactions wherein the employee had a change in status.

* Comment

OSC Recommendation:

10. *Monitor adherence to the University's policies and procedures that limit the use of Quick Orders.*

University Response:

We concur with this recommendation. The purchasing department currently does make efforts to monitor compliance by reviewing QO volume reports; however, we will look at ways to improve this monitoring by developing and reviewing monthly quick commodity and supplier reports. We will also update our policies and training materials to better define the circumstances where the use of a QO is not an appropriate procurement method.

OSC Recommendation:

11. *Attempt to negotiate discount pricing agreements with vendors being paid substantial amounts by the University as a result of bulk or repetitive purchases.*

University Response:

We concur with this recommendation. The purchasing department does have a process to review commodity and supplier spending reports in order to identify opportunities to negotiate for discounts on bulk purchases. However, due to the expansive nature of the commodities and services that we procure, the buyers have not been able to accomplish this task in every commodity or service area. We will continue to look for opportunities in this regard.

*We have revised our report based on information provided in the response and subsequent follow up with Rutgers' officials.

OSC Recommendation:

> 12. *Require the Internal Audit Department to periodically review Quick Orders to determine whether they are being used in accordance with University Policy.*

University Response:

We concur with this recommendation and will add this review to the Internal Audit Department's annual audit program beginning in calendar year 2011.

RUTGERS INTEGRATED ADMINISTRATIVE SYSTEM

OSC Finding:

Cost overruns and technical difficulties continue to plague the RIAS Project.

University Comments:

We strongly disagree with this finding. The Rutgers Integrated Administrative System (RIAS) Project was initiated to address a number of well-documented limitations and inefficiencies inherent in the University's existing financial management systems and paper-based business processes. The RIAS Project called for the replacement of the University's legacy financial management systems with an integrated suite of web-based financial software products (or modules) from the Oracle Corporation. The RIAS Project as originally conceived included the conversion and replacement of the University's general ledger, payroll, budget, and accounts payable systems, as well as the implementation of several new applications covering human resources, procurement, expense reporting, and grants management. The original project plan contemplated a "big bang" implementation of all applications on a single date, but was subsequently revised to provide for a more manageable three or possibly four phase implementation approach. The project budget for the phased implementation was estimated at approximately $59 million in 2001.

The first phase of the project covering the implementation of the procurement and accounts payable modules was completed in July 2002 at a cost of approximately $27 million. This amount also included the cost of the entire suite of software products, as well as the cost of new equipment required to operate the new applications. Implementation efforts on the remaining phases of the RIAS Project were indefinitely suspended at the conclusion of Phase 1 in order to cope with a significant reduction in state funding to the University's operating budget in Fiscal 2002. Five years later, in 2007, management made the decision to resume the project and the University successfully implemented Phase 2 of the project, which included the general ledger module in July 2008 at a total cost of approximately $5 million. In May 2008 implementation efforts on Phase 3 of the project, which includes human resources, payroll and budgeting, commenced. The budget component was successfully implemented in May 2010. The human resources and payroll applications are on target for a January 2011 implementation at a total cost of approximately $29 million.

Replacing a hodgepodge of legacy systems with a modern Enterprise Resource Planning (ERP) system is a complex and arduous task that requires significant time and funding. Most of Rutgers' peers have already deployed ERP systems. The cost to deploy has varied considerably, but it is safe to say that schools of Rutgers' size and complexity spent in excess of $50 million for an ERP. For example, the Big Ten schools report spending between $50 million and $150 million for their ERPs. We believe Rutgers has done an appropriate job of managing its ERP deployment during an extremely difficult budget period that has lasted a decade.

OSC Recommendation:

13. *Develop a comprehensive plan concerning implementation of the remaining RIAS applications, considering the cost-effectiveness of various options and the business justification for remaining implementations.*

University Response:

We concur with this recommendation and believe at this time that at least three of the remaining four applications (Grants Management, Accounts Receivable, and Expenses) are necessary and will be cost justified. We will develop implementation plans for these modules at the conclusion of phase 3 and in conjunction with planning efforts for a required major system upgrade (from release 11.5.10 to release 12.X.), which we expect will deliver improved functionality. Implementation efforts will be dependent on available funding.

OSC Recommendation:

14. *Implement the recommendations concerning information technology security measures that were provided to Rutgers' officials under separate cover.*

University Response:

Our responses to these recommendations are provided under a separate cover letter dated December 20, 2010.

<u>FINANCIAL MANAGEMENT PRACTICES</u>

OSC Finding:

The University's controls over certain areas of financial management need to be improved.

University Comments:

We acknowledge and accept that in large, complex, and dynamic business environments such as Rutgers, management has a responsibility to continuously review, evaluate, and adjust or implement policies, procedures, and information systems to control risks and provide proper stewardship over University resources.

OSC Recommendation:

> 15. *Using the software already purchased, automate the bank reconciliation process to increase the efficiency of operations.*

University Response:

We concur with this recommendation and will continue to investigate how the Cash Management module may be used to facilitate our bank reconciliation processes. However, we are quite certain there will continue to be certain “reconciling items” that will not be automatically identified by the application. These reconciling items create the most inefficiency in the process. Therefore, the University accountant will need to continue to follow up on any reconciling items, trying to identify the sources and the accounts to which they should be credited.

The University already utilizes account reconciliation software and processes provided by our commercial banks to automate the reconciliation of accounts on which payroll and accounts payable checks are written. In addition, the University uses other cash management tools (such as Positive Pay, ACH Blocks, and Special Coding on Depository Accounts) to ensure no fraudulent checks are drawn and to protect the University’s bank accounts from unauthorized/fraudulent activity. Finally, for bank accounts holding large balances, the debits to the accounts are reconciled on a daily basis. Any unknown or unauthorized debits that pass the Positive Pay, ASH Blocks, or Special Coding established on the accounts are investigated and, when appropriate, rejected.

With regard to Electronic Funds Transfers (“EFTs”) and the timely recording of their deposit, it is important to recognize that they can be unique transactions requiring personal attention. Some initiating entities send the money without notifying the University of the date and amount of the wires. Although the University asks remitting organizations to identify the purpose of the payment, often this request is ignored. Since many remitting organizations are paying for multiple purposes, accountants must take the necessary time to determine for what purpose the payments are being made.

OSC Recommendation:

> 16. *Develop a clear policy that lists necessary procedures regarding cash deposits, reconciliations and the transfer of information to the University’s bank accountants.*

University Response:

We concur with this recommendation. RU Policy 40.2.8 “Cash Handling – Policies and Procedures for Receipt, Deposit, and Security of Cash” is the guiding document outlining the procedure regarding cash deposits, reconciliation of deposits, and the recording of these deposits on the General Ledger of the University. This policy will be reviewed and revised as necessary (i.e., tightening the language as to the timing of the preparation and submission of Cash Transmittal Reports, inclusion of EFTs, ACH transactions, credit and debit card transactions, etc.).

OSC Recommendation:

17. *Periodically update policies and procedures to reflect the current operating environment including RIAS and any subsequent modifications to RIAS.*

University Response:

We concur with this recommendation. Policies will be reviewed every two to three years, unless circumstances warrant a more frequent review. When updates are appropriate, they will be made. However, policies are guiding documents with underlying processes and procedures. Although processes and procedures should be dynamic, changing on a regular basis, policies should be more static – only changing when there is a true need. Each policy will have a notation as to the date of the most recent review in order to document this review process. Written instructions regarding the processes and procedures will be created and maintained.

OSC Recommendation:

18. *Maintain a comprehensive, up-to-date list of all business offices, their functions, location and staff assigned.*

University Response:

We concur with this recommendation. The University has a system of budget responsibility codes that determine the responsible authority for every account maintained in the Chart of Accounts. The University Controller’s Office uses these budget responsibility codes to identify the appropriate business administrator to contact for any business matters.

Changes to procedures, issues regarding transactions, and other business matters are communicated to these primary contacts regularly. The Controller’s Office has developed a structure for communicating business matters to the University business community. This structure consists of a core group of 13 business administrators. The remaining business administrators have been divided into subgroups that are led by one or two members of the core group. The core group meets monthly to discuss business process changes and new regulations, and to communicate any other business matters. They then are responsible for disseminating this information to their subgroup.

In addition, the Senior Vice President for Finance and Administration holds quarterly meetings that all business administrators are expected to attend. These meetings are used to provide an open line of communication from the various administrative areas, such as human resources, facilities, public safety, information technology, and the Controller's Office, to the business staff. There is also a listserv of more than 400 business administrators who oversee the University's grant accounts. Information regarding grant accounts is regularly sent to this Listserv. These administrators are also invited to quarterly meetings held to discuss the various responsibilities and requirements of managing grants.

The Controller's Office will maintain the list of primary business contacts submitted to the auditors and will annually contact these individuals to determine any changes in their responsibilities.