



PERFORMANCE AUDIT

KUTZTOWN UNIVERSITY OF PENNSYLVANIA

COMMONWEALTH OF PENNSYLVANIA

**PENNSYLVANIA STATE SYSTEM OF HIGHER
EDUCATION**

AUGUST 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

August 28, 2013

Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dear Governor Corbett:

This report contains the results of a performance audit of Kutztown University of Pennsylvania of the Pennsylvania State System of Higher Education for the period July 1, 2007, to June 30, 2011, unless otherwise noted. We conducted our audit under the authority of Section 2015-A (relating to Annual audit) of Article XX-A of the Public School Code of 1949 (24 P.S. § 20-2015-A), which states, “Activities of the system under this article shall be subject to the audit of the Department of the Auditor General.” The audit was also conducted under the authority provided in Section 402 of The Fiscal Code and in accordance with generally accepted government auditing standards.

The report contains five findings and six recommendations. The report indicates that the university did not comply with required travel policies related to more than \$3,700 in travel expenses, and it did not implement adequate internal controls related to its fixed assets. In addition, the report notes that Kutztown established sufficient controls over the collection and safeguarding of miscellaneous revenues, and the university entered into a guaranteed energy savings contract which resulted in energy cost savings during the first two years of the contract. Finally, the report notes that Kutztown’s student fees were reasonable during our audit period.

We discussed the contents of the report with the management of the university, and all appropriate comments are reflected in the report.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

**Kutztown University of Pennsylvania
Pennsylvania State System of Higher Education**

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**Background
Information**

*History and
operating statistics*

Pennsylvania State System of Higher Education

Pennsylvania's 14 state-owned universities are part of the Pennsylvania State System of Higher Education, which we refer to as the State System or PASSHE in this report. Prior to the enactment of Article XX-A of the Public School Code of 1949 through Act 188 of 1982, as amended, that created the State System,¹ the Pennsylvania Department of Education had administrative control of the 14 institutions,² 13 of which were then known as state colleges.³

The purpose of the State System is to provide students with the highest quality education at the lowest price. The 14 universities include the following:

Bloomsburg	Kutztown
California	Lock Haven
Cheyney	Mansfield
Clarion	Millersville
East Stroudsburg	Shippensburg
Edinboro	Slippery Rock
Indiana	West Chester

The State System also includes four branch campuses, the McKeever Environmental Learning Center, and the Dixon University Center.

State System Board of Governors

A centrally established 20-member board of governors has overall responsibility for planning and coordinating the operation and development of the State System. Examples of the board's statutory powers include the following:

- establishing broad fiscal, personnel, and educational policies under which the State System universities operate

¹ 24 P.S. §20-2001- A *et seq.*

² These institutions originated as "state normal schools" and teachers colleges. See [http://www.portal.state.pa.us/portal/server.pt/community/institution_types/8713/pennsylvania_state_system_of_higher_education_\(passhe\)/522469](http://www.portal.state.pa.us/portal/server.pt/community/institution_types/8713/pennsylvania_state_system_of_higher_education_(passhe)/522469).

³ Kutztown University of Pennsylvania has a long and illustrative history as a state normal school established on September 15, 1866, and has been part of the State System of Higher Education since the early 1980's. <http://www2.kutztown.edu/about-ku/history.htm> By way of further background, while Indiana University of Pennsylvania was already known as a university as early as 1965 and prior to the creation of the state system, each of the other 13 state colleges, including Kutztown, became known as the (Name) University of Pennsylvania of the State System of Higher Education effective July 1, 1983.

Kutztown University of Pennsylvania Pennsylvania State System of Higher Education

- appointing university presidents
- coordinating, reviewing, amending, and approving university operating and capital budgets
- setting tuition and fee levels
- creating new undergraduate and graduate degree programs
- promoting cooperation among institutions

Members of the board include four legislators, or his/her official representative and 14 members appointed by Pennsylvania's governor with approval of the state senate, including three State System university students, five trustees of constituent institutions, each from different universities, and six members of the public. The governor and secretary of education or their designees also serve on the board.⁴ Additionally, the board appoints a chancellor to serve as the chief executive officer of the State System's board and shall have the right to speak on all matters before the board, but not have a vote.⁵

At the university level, each university has a president and an 11-member council of trustees, including a full-time undergraduate student in the upper classes in good academic standing. While the State System appoints the university president, the members, with the exception of the student member of the university's council of trustees is appointed by the governor, with approval of the state senate.⁶

University trustees make recommendations to the State System chancellor for the appointment, evaluation, and dismissal of the university president. Trustees also assist with setting the university budget and new academic programs. The university trustees also approve all fees, other than tuition.⁷ The State System chancellor serves as an ex-officio member for all the universities' council of trustees.⁸

⁴ 24 P.S. § 20-2004-A(a).

⁵ 24 P.S. § 20-2004-A(e) and 20-2006-A(a)(1)

⁶ 24 P.S. §§ 20-2008-A(a) and (b) and 20-20010-A. Please note that the student member is appointed by the governor **without** the approval of the state senate.

⁷ 24 P.S. § 20-2009-A.

⁸ 24 P.S. § 20-2005-A(10).

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Kutztown University of Pennsylvania

Kutztown University of Pennsylvania, which we refer to as Kutztown or the university in this report, was established in 1866 as a State Normal School for the education of teachers. Kutztown, which is located in eastern Berks County, now offers a wide range of graduate and undergraduate majors.

Kutztown is academically accredited by the Middle States Association of Colleges and Secondary Schools, the National Council for Accreditation of Teacher Education, and other professional organizations.

As the table below shows, in academic year 2010-11 Kutztown enrolled the full-time equivalent of nearly 10,000 students and its state appropriation was \$37.0 million.

Kutztown University Selected Statistics	2007-08	2008-09	2009-10	2010-11
Full-Time Equivalent Students (FTEs)				
Undergraduate	8,810	8,898	9,121	9,260
Graduate	<u>603</u>	<u>596</u>	<u>638</u>	<u>621</u>
Total	9,413	9,494	9,759	9,881
Full-Time Equivalent Instructional Faculty	452	465	478	455
Degrees Conferred	1,908	2,054	2,092	2,030
State Appropriations <i>(rounded in millions)</i>	\$40.7	\$40.8	\$37.7	\$37.0

Source: Developed by the Department of the Auditor General from information obtained from Kutztown University and the Joint State Government Commission.

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**Objectives,
Scope, and
Methodology**

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.

Our performance audit of Kutztown had five objectives. We selected the objectives from the following areas: staff and faculty travel, fixed assets and computers, miscellaneous revenues, energy conservation, and student fees. The specific audit objectives were as follows:

One: To determine if Kutztown personnel complied with travel expense policies and processed travel reimbursements in accordance with required procedures. (Finding 1)

Two: To evaluate Kutztown's management controls over the purchase and inventory of fixed assets and computers. (Finding 2)

Three: To evaluate Kutztown's management controls over the collection and safeguarding of miscellaneous revenues. Our objective also included a review of the food service commission payments. (Finding 3)

Four: To determine what actions Kutztown management has taken to conserve energy in campus facilities and whether these actions have improved efficiency and resulted in energy cost savings. (Finding 4)

Five: To determine whether student fees at Kutztown were reasonable. (Finding 5)

The scope of our audit was July 1, 2007, through June 30, 2011, unless otherwise noted.

To accomplish our objectives, we obtained and reviewed records and analyzed pertinent policies, procedures, financial accounting standards, and procedure manuals of Kutztown, the State System of Higher Education, and the Commonwealth of Pennsylvania. We obtained and reviewed commonwealth laws, where applicable. We also interviewed various members of university management and staff. The audit results section of this report contains the specific inquiries, observations, tests, and analysis conducted for each audit objective.

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Kutztown management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the university is in compliance with applicable laws, regulations, contracts, grant agreements, and administrative policies and procedures. In conducting our audit, we obtained an understanding of Kutztown's internal controls, including any information systems controls, as they relate to those requirements and that we considered to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

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Audit Results

We organized our audit results into sections, one for each objective, as follows:

- Statement of the objective.
- Relevant laws, policies, and agreements.
- Audit scope in terms of period covered, types of transactions reviewed, and other parameters that define the limits of our audit.
- Methodologies used to gather sufficient and appropriate evidence to meet the objective.
- Finding(s).
- Recommendation(s), where applicable.
- Response by Kutztown University management, where applicable.
- Our evaluation of university management's response, where applicable.

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**Audit Results
for
Objective
One**

*Travel
Expenditures*

The objective

Objective one was to determine if Kutztown personnel complied with travel expense policies and processed travel reimbursements in accordance with required procedures.

Relevant policies and procedures

Kutztown employees are eligible to receive reimbursement within prescribed maximums for travel expenses incurred in the performance of their official duties. Reimbursement to employees is made on the basis of approved travel expense vouchers. Employees are responsible for ensuring that expenses claimed on their travel expense vouchers are proper and accurate, and supervisors are responsible for reviewing and approving the travel expense vouchers submitted by employees.

The State System travel policy stipulates that “all persons who travel at State System expense are expected to exercise prudence and economy,” and the policy specifies the types of employee travel that are allowable and reimbursable. This policy addresses eligibility, rates, and documentation required for reimbursement of travel expenses such as those for lodging, meals, personal mileage, and commercial transportation.

The State System has adopted the privately-owned vehicle mileage reimbursement rates and the maximum subsistence and lodging reimbursement (per diem) rates established by the U.S. General Services Administration. According to the U.S. General Services Administration’s website, rates for foreign travel are established by the U.S. Department of State.

Kutztown’s travel procedures describe the process of obtaining reimbursement for traveling and incorporate requirements from the State System’s policy. In addition to requiring employees to submit an approved travel expense voucher after returning from a trip, Kutztown’s travel procedures require employees to complete a travel approval request form prior to any travel. This form, which details information such as the purpose and estimated costs of the trip, must be signed by the appropriate supervisor prior to any travel.

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During our audit period, the university spent approximately \$4.25 million for travel and transportation costs as shown below.

<u>Fiscal Year End June 30,</u>	<u>Total travel expenditures</u>
2008	\$1,074,753
2009	\$1,116,143
2010	\$1,007,546
<u>2011</u>	<u>\$1,047,034</u>
Total	\$4,245,476

Scope and methodology

The scope of this objective was July 1, 2007, through June 30, 2011. To accomplish our objective, we reviewed the pertinent policies and procedures, and interviewed the applicable personnel responsible for ensuring compliance with those procedures.

We obtained and examined the university's expenditure ledger entries for travel and transportation for the audit period to identify any excessive travel expenditures incurred by any department or traveler based on the dollar amount or the description of travel. We also reviewed the ledger for any transactions that seemed atypical for a state university.

We analyzed the available supporting documentation (including travel approval request forms, travel expense vouchers, invoices, receipts, traveler credit card statements, e-mail communications, conference flyers and/or registration forms, and travel itineraries) for 91 travel reimbursement requests paid by the university. For all 91 travel reimbursement requests we verified whether Kutztown personnel complied with travel policies and procedures.

We compared the personal mileage, subsistence, and lodging costs documented on the same 91 reimbursements to the applicable rates/maximums set by the State System's Office of the Chancellor, the U.S. General Services Administration, or the U.S. Department of State to determine whether allowable rates were exceeded. The total value of all 91 reimbursement requests was \$359,448.

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Finding 1**Kutztown did not comply with required travel policies related to more than \$3,700 in travel expenditures.**

Our review of 91 travel reimbursement requests found that 84 of the 91 travel expense transactions we selected for detailed testing complied with travel policies. However, we found that Kutztown did not comply with required travel policies and procedures in the other seven instances. The following narrative details the specifics of the noncompliance.

Pre-approval forms missing. We found two trips, totaling \$409, in which employees, travelling to recruit students, did not complete a pre-approval form for travel.

When we asked Kutztown officials why the pre-approval forms were not completed in these two instances, they stated that employees routinely used the pre-approval form, and these two instances were the “exception to the rule.” They also stated that it was possible that the employees in these two cases received verbal pre-approval to incur the travel expenses.

Personal mileage more expensive to reimburse. We found four instances where Kutztown reimbursed employees for the more expensive means of travel. The State System’s travel policy requires employees to use the most prudent and economical means of transportation.

In June 2010, the university entered into a contract with Enterprise Rent-A-Car for rental cars. Kutztown management did not mandate the use of rental cars, but it did encourage employees to utilize the trip optimizer software tool provided on the Enterprise Rent-A-Car website before traveling to determine if it was more cost effective to rent a car than to use a personal car.

We found that the university reimbursed employees for personal mileage on four different occasions when using a rental car could have saved the university \$418. We calculated that amount by using the rental car optimizing software.

Each time Kutztown reimbursed an employee for personal mileage that exceeded the cost of a rental car, the university did not comply with PASSHE’s policy requiring employees to use the most economical means of transportation. When we discussed the use of personal cars instead of rental cars with Kutztown officials, they stated that there are times when trip logistics do not make it prudent for an employee to use a rental car. In these instances Kutztown should document on the travel voucher why the most economical means of travel was not used.

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Lack of supporting documentation. One of the travel transactions we examined showed a payment of \$2,896 from the university to the university's foundation for a two-day retreat sponsored by the foundation in January 2009. While the foundation sponsored this retreat, Kutztown reimbursed the foundation for a portion of the retreat's costs because the university's president and council of trustees attended the retreat.

The only documentation the university could provide us to support this transaction was a purchase order for the full \$2,896 charge. The purchase order did not itemize the specific costs associated with the retreat. Without documentation that detailed the retreat's expenses, we could not determine if the university paid for unallowable travel costs.

When we discussed this retreat with Kutztown officials, they stated that itemized receipts were most likely destroyed during a flood in the campus' storage area. However, after we provided Kutztown with a copy of our draft audit report, university officials located a copy of the retreat invoice from the university's president.

This invoice provided more details on the trip's expenses, such as the rate for seven reserved hotel rooms and the items provided for two working luncheons. It also raised questions about possible unallowable expenses. The invoice listed a dinner for 11 that cost \$928 and a dining room expense of \$76 for "pub cocktails." Alcohol is an unallowable expense. University officials stated that Kutztown now requires itemized receipts to ensure that the university does not pay for unallowable expenses.

Overall, we identified \$3,723 in questionable travel expenses which indicated a need for Kutztown to tighten administrative oversight of its travel expense reimbursements.

**Recommendations
for Finding 1**

1. Kutztown management should ensure that all employees traveling on university business submit a pre-approval travel request form and obtain supervisory authorization for the travel expenses prior to commencing travel.
2. Kutztown management should not reimburse any employee for travel expenses unless the required receipts, with details of each expense, are attached to the traveler's expense voucher and the expenses are allowable as per applicable policy.
3. Kutztown management should ensure that all employees traveling on

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university business use the Enterprise Rent-A-Car trip optimizer, and document the use of the program, to assist Kutztown management in ensuring that the most economical means of travel was used.

**Management
Response****Written comments provided by Kutztown University
management:**

For employee travel, pre-approval is required to assure Kutztown University has sufficient budget to reimburse the employee. Whenever preapproval is not obtained, the employee bears the risk of not being reimbursed as Kutztown University is not liable for any incurred expenses. The employee will only be reimbursed provided, upon their return, the employee's department has adequate budget, and the employee obtains all proper approvals and complies with all travel policies.

Kutztown University will communicate, reemphasizing the importance of following Kutztown University policy that only detailed invoices and receipts are reimbursed, to the accounts payable department. Additional voucher reviews will be conducted by the Comptroller's office to ensure only properly detailed receipted travel expense reports are reimbursed.

The Auditor General's report confirms that Kutztown University employees comply with the policy to exercise prudence and economy when determining whether to use a rental vehicle or be reimbursed for personal vehicle use. Kutztown University will modify its travel expense voucher to provide for an explanation when a traveler utilizes their personal vehicle when renting a car would be less expensive.

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**Audit Results
for
Objective
Two**

*Fixed Assets and
Computer
Inventories*

The objective

Objective two was to evaluate Kutztown's management controls over the purchase and inventory of fixed assets and computers.

Relevant policies and procedures

The State System's policy related to fixed assets defines a fixed asset as any equipment, furniture, software, buildings, and improvements with a cost in excess of \$5,000 and an estimated useful life of two years or more. This policy requires all state-owned universities to tag the fixed assets to signify university ownership and to record on a fixed asset ledger all fixed asset purchases.

Additionally, according to the State System's policy, universities should complete a physical inventory of fixed assets at least once every three years, adjust the fixed asset ledger for assets that have been taken out of service, lost, stolen, or otherwise disposed of, and develop a policy for equipment taken off campus.

With regard to computers and computer-related equipment, Kutztown's information technology department established internal procedures in 2012 to manage the computer and related equipment inventory. Kutztown's procedures require staff to maintain a master listing of all computers and related equipment. This list is to include the name of the assigned computer user, location, building, serial number, and type of equipment, such as laptop, iPad, etc. Further, these newly-established procedures include completing an annual physical inventory of computers and related equipment.

Scope and methodology

The scope of this audit objective was July 1, 2007, through June 30, 2011, with updates through December 14, 2012.

In order to accomplish our objective, we reviewed the State System's policy related to fixed assets and Kutztown's procedures related to computers and computer-related equipment. We also interviewed Kutztown personnel responsible for fixed asset and computer purchases and inventory procedures.

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We obtained and examined the university's expenditure reports for all fixed asset and computer purchases made between July 1, 2007, and June 30, 2011. These reports indicated that the university purchased 710 fixed assets during that time. We also obtained the university's fixed asset inventory listing, dated December 14, 2012, which listed 1,446 fixed assets.

During our audit period, Kutztown leased its computers and computer-related equipment. On September 27, 2012, Kutztown opted to purchase computers and equipment rather than renew its leasing arrangement. We obtained Kutztown's computer and computer-related equipment inventory listing as of September 27, 2012, which included 5,289 items.

From the listing of 710 fixed asset purchases, we selected 25 purchases and traced the purchased items to the December 14, 2012, fixed asset inventory listing to determine whether Kutztown recorded newly-purchased assets on the university's fixed asset inventory list.

From the 1,446 fixed assets we selected 16 items for existence testing. We also selected 25 items from the September 27, 2012, computer and computer-related equipment inventory listing for existence testing.

Finally, while conducting existence testing of fixed assets and computers, we randomly chose an additional nine fixed assets and six computers that we observed in various university buildings to verify that these items had been recorded on the university's inventory lists.

Finding 2**Kutztown did not implement adequate internal control procedures over its fixed assets.**

We found that Kutztown had adequate internal controls over computers, but it did not implement adequate controls and safeguards over its fixed assets. Further, the university did not comply with the State System's policy that requires each university to complete a physical inventory of fixed assets at least once every three years and to adjust the fixed asset ledger for assets taken out of service.

Specifically, we found that Kutztown had not conducted any physical inventories of its fixed assets between the years 2004 and 2012. Kutztown officials stated that on May 31, 2012, they conducted their first physical inventory of fixed assets since 2004.

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When we discussed the lack of physical inventories with Kutztown officials, they stated that the university did not have a dedicated fixed asset manager on staff due to budget constraints; therefore, the university did not have the personnel to conduct physical inventories.

Kutztown did however conduct physical inventories of its computers and computer-related equipment in 2007, 2009, and again on September 27, 2012, when it purchased new computers and related equipment. While neither PASSHE nor Kutztown historically had a policy requiring physical inventories of computers, after Kutztown purchased its new computers, the university's information technology department established a policy to conduct annual physical inventories on computers and related equipment.

In the absence of routine physical inventories of its fixed assets, we would expect Kutztown to have implemented mitigating internal controls, such as inventory spot checks, to ensure that fixed assets were safeguarded and properly accounted for. Instead, we found that the university did not complete spot checks.

We also found that while Kutztown had a process for disposing of fixed assets and computers, the university did not update its inventory listing when the fixed assets were disposed. We found that Kutztown disposed of approximately 50 fixed assets between the 2004 and 2012 inventories, yet those assets were never removed from the inventory listing until the May 31, 2012, inventory.

Without updating its inventory list, not only did Kutztown have inaccurate fixed assets records, it did not know if items had been properly disposed of or if the items were missing due to theft or misuse.

In addition to the deficiencies described in the previous paragraphs, we also found examples where Kutztown did implement adequate procedures related to fixed assets. Specifically, our review of 25 fixed assets purchased by the university during the audit period confirmed that university staff recorded these fixed asset purchases in the university's fixed asset inventory records. Further, university officials stated that fixed assets were tagged to indicate university ownership. Finally, our existence testing for fixed assets and computers did not disclose any irregularities.

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To comply with State System policies and to ensure that assets are safeguarded, Kutztown officials should take immediate actions to improve management controls over fixed assets. Specifically, we recommend the following:

- | | |
|--------------------------------------|--|
| Recommendations for Finding 2 | <ol style="list-style-type: none"> 4. Kutztown staff should conduct a physical inventory of its fixed assets at least once every three years in accordance with State System policies. Furthermore, the university should consider conducting periodic spot checks of items. 5. Kutztown staff should ensure that it conducts an annual physical inventory of its computers and related equipment in accordance with the university's newly-created computer inventory policy. 6. Kutztown officials should update inventory listings when fixed assets are taken out of service. |
|--------------------------------------|--|

Management Response

Written comments provided by Kutztown University management:

Kutztown University agrees with the above finding and will conduct inventory audits in accordance with State System policies. Furthermore, Kutztown University will conduct periodic spot checks of its assets.

The Auditor General's report confirms that Kutztown University is in compliance with policies concerning Personal Computer inventories. In the fall of 2012, Kutztown University formalized its Personal Computer inventory policy that includes annual physical inventories.

Kutztown University has developed a form to be used to track assets that are taken out of service. The form will allow Kutztown University to update its inventory listings. The form will be put into operation as soon as approval is obtained from senior management.

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Audit Results
for
Objective
Three

Miscellaneous
Revenues

The objective

Objective three was to evaluate Kutztown's management controls over the collection and safeguarding of miscellaneous revenues. Our objective also included a review of the food service commission payments.

Relevant contracts, policies, and procedures

Miscellaneous revenues are generated from various activities and fees that are not related to student costs for tuition, housing, and food service. Miscellaneous revenues include parking permits and fines, library fines, print shop sales, photocopying fees, and monthly food service commissions.

During our audit period, Kutztown had two contracts for food service. AVI Food Service, Inc. provided the food service at Kutztown from April 8, 2004, through May 31, 2010 and Aramark Educational Services LLC, began to provide services on June 1, 2010.⁹ Both contracts required the vendor to pay the university monthly commissions on food service operations at five percent of gross cafeteria sales.

While the State System has not established any specific policy related to miscellaneous revenues, Kutztown has implemented a policy related to the collection of funds and the handling of revenue. This policy outlines procedures that university staff is to follow for the control and safeguarding of revenues. The revenues deposited in these accounts could be in the form of cash, check, money order, or credit card. Kutztown's bursar's office is responsible for collecting and safeguarding these miscellaneous revenues.

Scope and methodology

Our audit period for this objective was July 1, 2007, through June 30, 2011. In order to accomplish this objective, we reviewed Kutztown's funds collection policy and both food service contracts.

We interviewed Kutztown personnel responsible for the collecting, depositing, and reconciling revenue within the bursar's office. We also interviewed the Aramark senior food service director.

⁹ The Aramark food service contract expires on May 31, 2015.

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We observed the bursar's office operations to verify that the university was complying with collection procedures and security measures detailed in Kutztown's collection of funds policy.

We selected 20 days of deposit transactions which resulted in a total of 188 deposit transactions. For each of the 188 transactions, we verified if the deposit slips prepared by the bursar's office matched the bank deposit receipts and if the revenues were deposited in a timely manner. We also obtained supporting documentation from the university's financial system to determine if the deposits were accurately posted to their correct accounts. In addition, for 52 of the 188 deposits we traced the transactions to the bank statements.

With regard to the food service commissions, we reviewed the university's financial reports to determine if food service commissions paid to the university were posted to Kutztown's general ledger. These commissions totaled more than \$1.4 million for the four-year audit period. In addition, we selected one commission payment for each year of our audit period and determined if the vendors paid the correct amount to the university and if these four payments were properly recorded on monthly bank statements.

Finding 3

Kutztown established sufficient controls over the collection and safeguarding of miscellaneous revenues. In addition, the food service commissions paid to the university complied with the terms of the food service contracts.

Based on our audit work, we determined that Kutztown management established sufficient internal controls over the collection and safeguarding of miscellaneous revenues.

Specifically, we found that Kutztown's bursar's office deposited miscellaneous revenue collections into the bank in a secure and timely manner. Further, the bursar's office installed security cameras and utilized password-protected computers in an effort to maintain adequate controls over the collection of revenues. In addition, the computer systems did not allow cashiers to change deposit totals without additional verification and approval by the bursar.

We also found the bursar's office implemented adequate procedures to ensure there was appropriate segregation of duties. Finally, we found the bursar's office kept all collected revenues (cash and checks) in a safe until

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the university's armored courier picked up the money for deposit in the bank.

We verified that deposits were made timely and the deposit transactions were properly and accurately posted to the correct account in the university's financial accounting system without exception. Further, we traced the 52 selected deposit transactions back to bank statements without exception.

With regard to the food service commission payments, we found that Kutztown posted each of the 48 monthly payments to the university's general ledger. Our testing of four commission payments (we selected one month for each year of our audit period) showed that the food service vendors paid the correct commission amount to Kutztown as stipulated in the food service contracts. In addition, we were able to trace the four commission payments to monthly bank statements without exception.

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**Audit Results
for Objective
Four**

*Energy
Conservation*

The objective

Objective four was to determine what actions Kutztown management has taken to conserve energy in campus facilities and whether those actions have improved efficiency and resulted in energy cost savings.

Relevant laws and agreements

The Guaranteed Energy Savings Act which has been incorporated into the Commonwealth Procurement Code, allows government units, including state-owned universities, to enter into contracts for evaluating, recommending, designing, implementing, and installing energy conservation measures.¹⁰

On August 14, 2008, Kutztown entered into a guaranteed energy savings agreement with Noresco, Inc. (Noresco) for 15 different guaranteed energy savings campus projects. Projects included lighting upgrades, window replacement, replacement of weather stripping, steam trap maintenance and repairs, installation of water conservation equipment, energy management system, kitchen hood exhaust controls, solar pool heater, a variable frequency drive (VFD) on the heat pump system, chiller isolation valves, a VFD on chilled water pumps, a non-heated air curtain on loading dock, a new roof on field house, and the establishment of a campus-wide awareness, communication, and sustainability program.

Noresco estimated the total cost of the contract to be \$9.3 million, which included \$5.7 million in project costs, \$2.3 million in financing fees, and \$1.3 million for a performance bond. Noresco guaranteed that the university would realize energy costs savings of \$14.8 million over a 15-year period as a result of these projects.¹¹

The contract also stated that if Kutztown did not attain the annual savings guaranteed by Noresco, then the vendor would pay the university the difference between its actual savings and the guaranteed savings. The contract states that Noresco measures the energy consumption of the university and calculates energy savings, if any, on an annual basis. Noresco must provide Kutztown with an annual report showing this calculation, and Noresco must address and resolve any university concerns about the contents of the report, in particular the energy and cost savings.

¹⁰ See 62 Pa.C.S. § 3751 *et seq.*

¹¹ After deducting the full cost for this contract, Kutztown anticipates a net savings after 15 years of \$5.5 million.

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Kutztown pays an annual fee to Noresco for the energy monitoring and annual report.

Scope and methodology

The scope of this audit objective covered the period July 1, 2008, through June 30, 2011, with updates through December 31, 2012.

In order to accomplish this objective, we interviewed Kutztown's facilities energy management staff and campus utilities department director as well as the facilities energy operation staff.

We obtained and reviewed a copy of the guaranteed energy savings agreement between Noresco and Kutztown. Specifically, we reviewed the contract provisions related to the annual energy cost savings guaranteed by Noresco, and the terms by which Noresco would pay Kutztown for savings that fell short of the guarantee. We also reviewed the contract provisions outlined in each of the 15 campus upgrades, modifications, and replacement projects.

We obtained the copies of the annual energy savings reports prepared by Noresco and reconciled the annual savings amount to the guaranteed energy savings amounts as stated in the contract with Noresco. In addition, we obtained information on the energy management software system that Kutztown uses to track utility invoices and energy use.

Finding 4**Kutztown took several actions to reduce energy costs which resulted in energy cost savings of at least \$1.4 million over two years.**

Kutztown initiated many projects designed to reduce the university's energy costs. These projects included installing utility meters in all housing units, retrofitting water fountains with water bottle filling stations, and using LED lighting. Further, university officials stated that the university's recycling program assists in reducing waste.

However, the most significant initiative undertaken by Kutztown to conserve energy and reduce energy costs was its guaranteed energy savings agreement with Noresco. Noresco's work included 15 different projects throughout the campus.

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Noresco completed the last of the energy savings projects listed in the contract in September 2010. Accordingly, the first year of savings began in 2011.

The guaranteed cost savings figure listed in the contract for 2011 was \$708,783, and for 2012, the guaranteed savings amount was \$740,733. Noresco guaranteed that the savings would increase each year, and by year 15, or 2025, it guaranteed Kutztown that it would save \$1,330,337. As stated earlier, over the 15-year period, Noresco guaranteed Kutztown a total energy savings of \$14.8 million.

We reviewed Noresco's annual verification report on energy savings for both 2011 and 2012. According to these reports, Kutztown actually saved more money than the amounts guaranteed by Noresco for those two years. In 2011, Noresco reported that Kutztown saved \$710,783 in energy costs from the 15 projects, and in 2012, Kutztown saved \$742,697.

When Kutztown received these annual verification reports, the university's facilities energy management and campus utilities department, director compared the energy cost savings calculations in the reports to the university-maintained energy data to ensure the savings calculations were correct.

While the university paid a fee to Noresco for the annual verification report and energy cost savings calculation, the university believes the amount of energy savings greatly outweigh the cost of the fee. The fee was \$10,348 in 2011, and it increases three percent each year. The total cumulative fee over 15 years will be \$192,462, but the projected energy costs savings (net project costs) are estimated at \$5.5 million.

Based on the results of our work, we found that Kutztown had taken several actions to conserve energy and reduce energy costs. We also found that the university adequately monitored its guaranteed energy savings contract and ensured that it attained the guaranteed annual energy savings for 2011 and 2012.

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**Audit Results
for Objective
Five**

Student Fees

The objective

Objective five was to determine whether student fees at Kutztown were reasonable.

Relevant laws and policies

Article XX-A of the Public School Code of 1949 through Act 188 of 1982 as amended (Code), which established PASSHE, provides that the purpose of the State System is to provide high quality education at the lowest possible cost to students.¹² The State System's board of governors sets tuition rates,¹³ as well as the rates charged for the technology fee and the instructional service fee.

Article XX-A of the Code also empowers each university's council of trustees and president to review and approve charges for room and board and other fees except student activity fees.¹⁴ Each university's president, in conjunction with the student association, has the power and duty to fix student activity fees and supervise the collection, retention, and expenditure of that fee.¹⁵

The State System student fees policy delineates between the purposes of tuition and other fees, provides clarity regarding the purposes of the fees for which students are assessed, and limits the use of various miscellaneous fees for instruction purposes. Examples of fees charged to students include student union, health and wellness, recreation, and transportation fees.

Scope and methodology

The scope of this audit objective was July 1, 2007, through June 30, 2011, and covered the following required fees: student union fee, recreation center fee, health and wellness fee, and the transportation fee.

To accomplish our objective, we reviewed Article XX-A of the Code and the board of governors' policy related to student fees. We also reviewed

¹² 24 P.S. § 20-2003-A(a)

¹³ 24 P.S. § 20-2006-A(a)(11)

¹⁴ 24 P.S. § 20-2009-A(7)

¹⁵ 24 P.S. § 20-2010-A(6)

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Kutztown's council of trustees' meeting minutes to determine the fees set by the council each year during our audit period.

We interviewed the director of budget and business services in order to obtain an understanding of how the rates for these fees were set as well as to obtain an understanding of how the fee revenues were deposited. We also discussed the use of these fees and how the university prepared its budgets for the use of these fees. In addition, we interviewed Kutztown officials responsible for the operations of the student union center and the recreation center to obtain an understanding of future needs for the operations of these two centers.

We determined the total fee amount collected for each year and the amount of that revenue that the university maintained in a reserve fund each year.

Finally, we reviewed PASSHE's Fact Book for 2010-11 to determine how Kutztown's student fees compared to the other 13 state-owned universities.

Finding 5

Kutztown set student fees at rates that allowed it to build a reserve for facility repairs and replacements, but those fees were still comparable to fees of the other state universities.

We found Kutztown's student fee rates appeared to be reasonable and were comparable to those of the 13 other state-owned universities. In analyzing the annual fee rates, we also found that Kutztown continued to increase the fees while at the same time allowing the fund balances of the fees to increase, as shown on the following table.

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Kutztown University Summary Schedule of Fees			
Academic year	Fee rate per year	Fee revenue collected	Fund balance at June 30
Recreation Center Fee:			
2007-08	\$218	\$1,970,073	\$ 940,444
2008-09	\$230	\$2,063,967	\$1,078,657
2009-10	\$238	\$2,188,824	\$1,330,370
2010-11	\$246	\$2,289,814	\$1,852,739
Student Union Fee:			
2007-08	\$334	\$3,330,298	\$4,840,222
2008-09	\$340	\$3,377,894	\$5,548,047
2009-10	\$350	\$3,514,616	\$6,879,168
2010-11	\$360	\$3,636,423	\$6,559,677
Health and Wellness Fee:			
2007-08	\$188	\$1,838,727	\$4,029,581
2008-09	\$196	\$1,836,465	\$1,029,957
2009-10	\$204	\$1,879,749	\$1,034,880
2010-11	\$210	\$1,960,423	\$1,426,648
Transportation Fee:			
2007-08	\$52	\$432,381	\$127,414
2008-09	\$66	\$541,653	\$201,031
2009-10	\$68	\$573,198	\$277,990
2010-11	\$70	\$604,960	\$483,438

Kutztown officials stated that the university deliberately set its fees at rates which allowed the university to maintain fund reserve balances in each fee account. PASSHE policy¹⁶ requires each state-owned university to finance the operation, maintenance, repair, renovation, and construction of facilities, such as the student union center and the recreation center, from user fees, among other revenues. This policy states that “fees should be established that provide revenues for current operations and maintenance of the facility, as well as the annualized lifecycle requirements to repair and restore the facility, when required.”

¹⁶ PA State System of Higher Education, Policy 1990-03-A: Finance, Operation, Maintenance, and Capital Renewal of Auxiliary Facilities, adopted April 19, 1990, and amended April 9, 1998.

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While PASSHE policy requires the universities to maintain reserve balances in the fee accounts, neither PASSHE nor Kutztown have any policies limiting reserve account balances.

Kutztown officials stated that PASSHE hired an independent consultant who determined the replacement value of the facilities at each of the 14 universities. Using that information, Kutztown aims to put 1.5% to 3.0% of each facility's replacement value in reserve each year.

For example, the replacement value on the recreation center is estimated to be approximately \$15 million. The targeted reserve amount would range from \$225,000 to \$450,000 each year. As shown on the table above, Kutztown increased its recreation center fee fund balance by more than \$900,000 over the three year audit period, with the average amount falling within the reserve range.

Kutztown officials stated that the university did not always save the full three percent in reserve each year because the university wanted to ensure its fee rates were reasonable when compared to the other 13 state-owned universities. University officials stated that Kutztown assessed facility needs each year when setting fees, but had to balance those needs with the university's mission to provide a post-secondary education at the lowest possible cost to students.

Finally, according to PASSHE's 2010-11 Fact Book, the total of all student fees for Kutztown amounted to \$1,928 which was below the PASSHE average of \$1,962. For example, Kutztown's student activity fee for 2010-11 was \$246 while the PASSHE average was \$412.

Based on the results of our work, we found that Kutztown set fees at rates that allowed the university to remain competitive with the other PASSHE universities while at the same time providing a reserve fund for deferred maintenance and future facility expansion or replacement. Therefore, we concluded that Kutztown's student fees were reasonable.

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