

PERFORMANCE AUDIT
OF
GRAND VALLEY STATE UNIVERSITY

June 2000

EXECUTIVE DIGEST

GRAND VALLEY STATE UNIVERSITY

INTRODUCTION

This report, issued in June 2000, contains the results of our performance audit* of Grand Valley State University.

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency* . For audits of universities, audit selection is based on several factors, such as length of time since our last audit and legislative requirements.

BACKGROUND

The University is accredited by the North Central Association of Colleges and Schools (NCA) and conducted an academic self-study in 1999, as required by NCA. A number of the University's academic schools and programs are also accredited periodically by various accrediting bodies.

For fall semester 1999, the University had 17,452 students enrolled on and off campus. In addition to the University's main campus located in Allendale, the University offers classes in Grand Rapids, Holland, Muskegon, and Traverse City.

* See glossary at end of report for definition.

As of August 31, 1999, the University had approximately 482 full-time, 4 part-time, 121 visiting, and 320 temporary* faculty members. The administrative/professional staff included 342 full-time and part-time employees.

For the University's fiscal year ended June 30, 1999, current (general, designated, auxiliary activities, and expendable restricted) fund revenues were \$187.5 million (Exhibit 1) and current fund expenditures and transfers were \$186.1 million (Exhibit 2). For the State's fiscal year ended September 30, 1999, the State appropriated \$49.5 million in general funds to the University. The State also appropriated \$37.5 million during its fiscal year 1996-97 toward the construction of a new academic center at the Grand Rapids campus.

AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS

Audit Objective: To assess the effectiveness and efficiency of the University's use of resources allocated to support academic and related programs.

Conclusion: We concluded that the University's use of resources allocated to support academic and related programs was generally effective and efficient. However, our evaluation disclosed reportable conditions* related to appointing an internal auditor, following competitive bid procedures, approving construction change orders, developing written policies and procedures, developing physical inventory controls, retaining documentation, accounting for auxiliary activities, and monitoring the food service contract (Findings 1 through 8).

Noteworthy Accomplishments: The University has carried out its administrative and academic responsibilities

* See glossary at end of report for definition.

with more students per staff than any of the State's other public universities. The University has had to efficiently manage its resources to remain competitive with other State universities. The University was recognized as one of America's 100 best college buys for the past four years by Institutional Research and Evaluation, Inc., a consulting firm that rates America's colleges and universities that have high academic ranking and low academic costs.

Audit Objective: To assess the effectiveness of the University's monitoring of academic and related programs provided to the students.

Conclusion: We concluded that the University's monitoring of academic and related programs provided to the students was generally effective. However, we noted reportable conditions related to faculty work load, minimum course enrollment* , repetitive course enrollments, and graduate placement statistics* (Findings 9 through 12).

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of Grand Valley State University. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit procedures included examination of the University's records and activities primarily for the period July 1, 1996 through August 31, 1999.

* See glossary at end of report for definition.

We interviewed various University personnel; reviewed applicable policies, procedures, and reference materials; analyzed available data/statistics; and obtained an understanding of the University's internal control* and operational and academic activities to formulate a basis for defining the audit scope.

We evaluated the student admissions and transfer processes; the monitoring of academic progress*, including probation, dismissal, and advising; and placement into remedial courses*. We reviewed policies for withdrawing from and repeating a course and evaluated academic progress of selected students with repetitive enrollment* in the same course. We examined enrollment and graduation trends, tuition costs, graduate placement services, and graduate placement data.

We analyzed data related to class scheduling; minimum class size; classroom utilization*; and faculty utilization, including work loads, release time*, and overload* courses. We evaluated the University's monitoring of technological needs for students, faculty, and administrative staff and its monitoring of degree programs* with few graduates.

We assessed the University's compliance with State and University procedures regarding capital construction*, renovation, and maintenance projects in progress during the period July 1, 1996 through August 31, 1999. We evaluated the reasonableness of the University's allocation of operating service costs paid by the general fund to the auxiliary activities.

* See glossary at end of report for definition.

We determined the propriety of the University's endowment funds and whether the funds were spent in accordance with the donor's intent. We reviewed the University's monitoring and awarding of financial aid.

AGENCY RESPONSES

Our audit report includes 12 findings and 12 corresponding recommendations. The University's preliminary response indicated that it agreed with 8 recommendations, partially agreed with 2 recommendations, and disagreed with 2 recommendations. An Auditor General epilogue follows the agency preliminary response for 1 recommendation.

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Ms. Donna K. Brooks, Chair
Board of Control
and
Mr. Arend D. Lubbers, President
Grand Valley State University
1 Campus Drive
Allendale, Michigan

Dear Ms. Brooks and Mr. Lubbers:

This is our report on the performance audit of Grand Valley State University.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; various exhibits, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the University's responses subsequent to our audit fieldwork. Annual appropriations acts require that the audited institution develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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Description of Agency

Grand Valley State College was established by Act 120, P.A. 1960, and enrolled its first class in 1963. Grand Valley State College was granted university status by the Michigan Legislature in 1987 and was subsequently renamed Grand Valley State University.

The 1963 State Constitution transferred the administration of the University to a body known as the Board of Control. The eight-member governing body is appointed by the Governor, with the advice and consent of the Senate, for terms of eight years. Not more than two terms may expire in the same year. The president serves as an ex officio member of the Board without the right to vote.

The University offers 92 undergraduate programs and 17 master's degree programs within 3 academic divisions and 9 academic schools. The academic divisions and schools include the Science and Mathematics Division, Arts and Humanities Division, Social Science Division, School of Communications, Seidman School of Business, School of Engineering, School of Health Professions, School of Criminal Justice, School of Public and Nonprofit Administration, School of Education, School of Nursing, and School of Social Work.

The University is accredited by the North Central Association of Colleges and Schools (NCA) and conducted an academic self-study in 1999, as required by NCA. A number of the University's academic schools and programs are also accredited periodically by various accrediting bodies.

For fall semester 1999, the University had 17,452 students enrolled on and off campus. The University's upper division* and lower division* resident tuition for fall semester 1999 was \$2,100 and \$2,024, respectively. In addition to the University's main campus located in Allendale, the University offers classes in Grand Rapids, Holland, Muskegon,

* See glossary at end of report for definition.

and Traverse City. The following table summarizes the University's recent full-time equated (FTE) student* enrollment at each of these locations:

UNAUDITED

FTE Student Enrollment by Location

| <u>Location</u> | <u>Fall 1999</u> | | <u>Fall 1998</u> | |
|-----------------------|----------------------|-----------------|----------------------|-----------------|
| | <u>Undergraduate</u> | <u>Graduate</u> | <u>Undergraduate</u> | <u>Graduate</u> |
| Allendale | 10,099 | 262 | 9,900 | 259 |
| Grand Rapids | 1,128 | 640 | 790 | 824 |
| Holland | 280 | 21 | 260 | 32 |
| Muskegon | 56 | 62 | 31 | 49 |
| Traverse City | 48 | 47 | 24 | 50 |
| Other Locations | <u>19</u> | <u>240</u> | <u>7</u> | <u>40</u> |
| Subtotal FTE Students | 11,628 | 1,272 | 11,012 | 1,254 |
| Total Students | | 12,900 | | 12,266 |

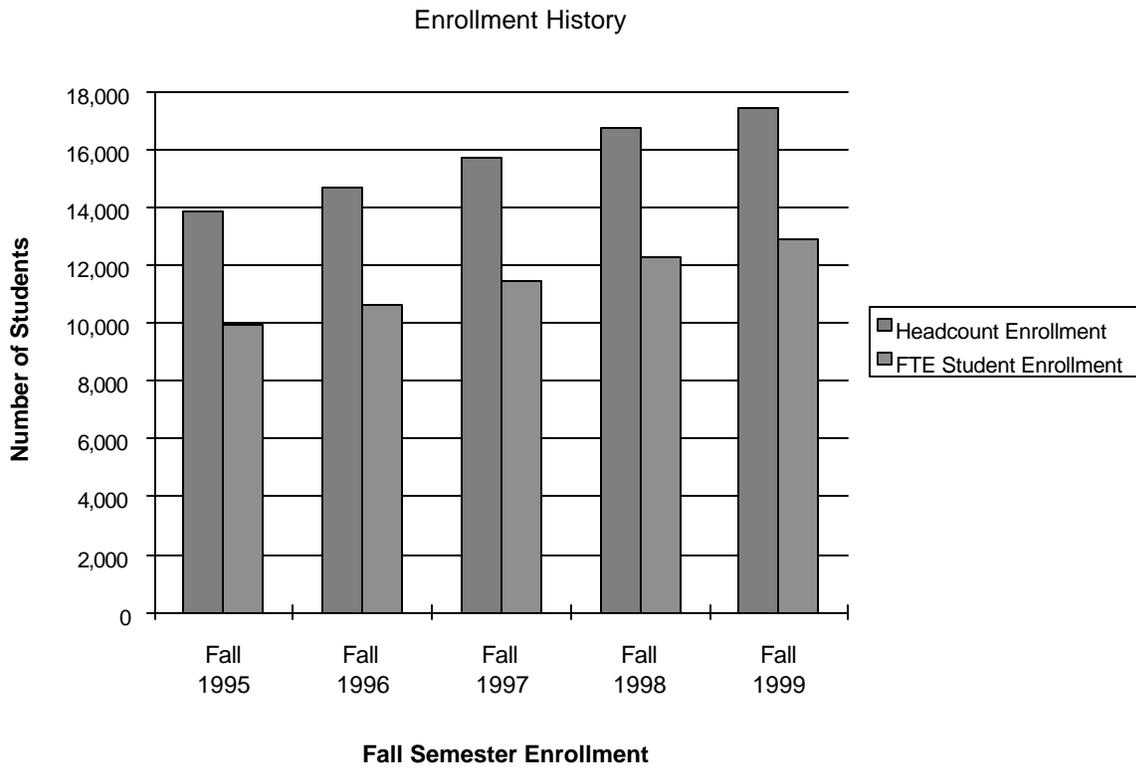
Source: Generated from the University's data on scheduled credit hours of instruction by location.

The University's enrollment increased 26% from fall 1995 to fall 1999. During this period, the University also underwent a significant expansion. Since 1994, the University has added 5 student housing developments, 4 academic centers, 1 student

* See glossary at end of report for definition.

center, and 1 child day care center to the main campus. The following chart summarizes the University's recent enrollment history:

UNAUDITED



Source: Grand Valley State University enrollment data.

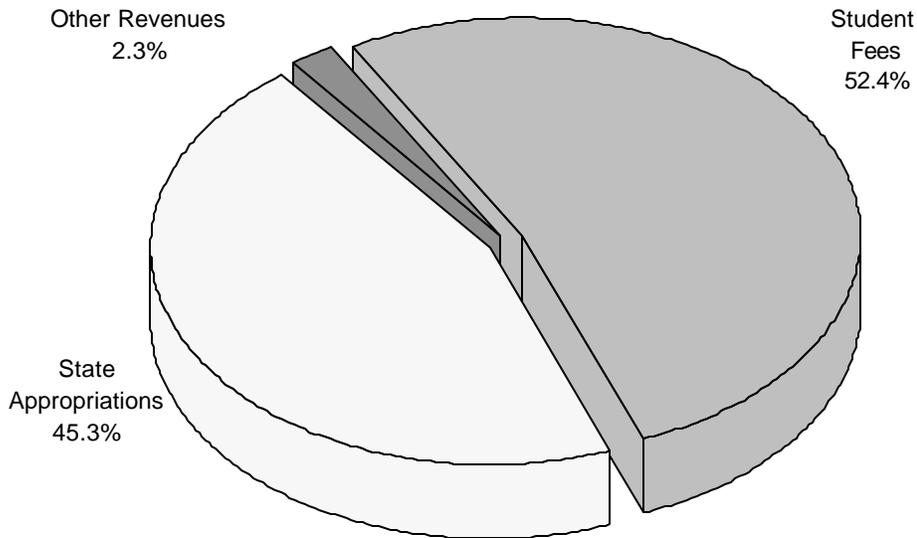
As of August 31, 1999, the University had approximately 482 full-time, 4 part-time, 121 visiting, and 320 temporary faculty members. The administrative/professional staff included 342 full-time and part-time employees.

For the University's fiscal year ended June 30, 1999, current (general, designated, auxiliary activities, and expendable restricted) fund revenues were \$187.5 million (Exhibit 1) and current fund expenditures and transfers were \$186.1 million (Exhibit 2). General fund revenues (student fees, State appropriations, and other sources) were \$111.0 million and general fund instruction expenditures were \$52.5 million for the fiscal year ended June 30, 1999. For the State's fiscal year ended September 30, 1999, the State appropriated \$49.5 million in general funds to the University. The State also appropriated \$37.5 million during fiscal year 1996-97 toward the construction of a new academic center at the Grand Rapids campus.

The following chart illustrates the University's General Fund revenues by source for fiscal year 1998-99:

UNAUDITED

GRAND VALLEY STATE UNIVERSITY
 General Fund Revenues by Source
 For Fiscal Year 1998-99



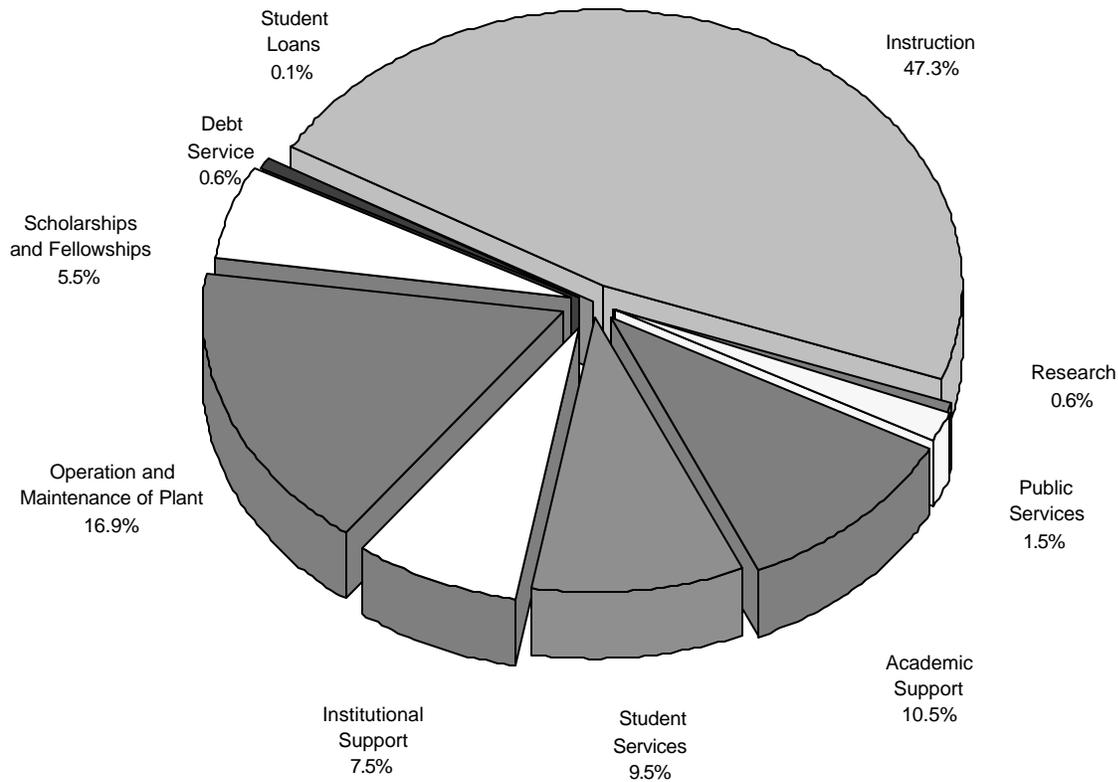
| | <u>Amount</u> |
|----------------------|----------------------------------|
| Student fees | \$ 58,189,206 |
| State appropriations | 50,251,531 |
| Other revenues | <u>2,576,600</u> |
| Total Revenues | <u><u>\$ 111,017,337</u></u> |

Source: Grand Valley State University financial statements.

The following chart illustrates the University's General Fund expenditures and transfers for fiscal year 1998-99:

UNAUDITED

GRAND VALLEY STATE UNIVERSITY
General Fund Expenditures and Transfers
For Fiscal Year 1998-99



| | <u>Amount</u> |
|--------------------------------------|----------------------------------|
| Instruction | \$ 52,492,166 |
| Research | 649,988 |
| Public services | 1,675,673 |
| Academic support | 11,664,122 |
| Student services | 10,598,361 |
| Institutional support | 8,337,477 |
| Operation and maintenance of plant | 18,733,700 |
| Scholarships and fellowships | 6,094,001 |
| Debt service | 705,704 |
| Student loans | <u>59,532</u> |
| Total Expenditures and Transfers | <u><u>\$ 111,010,724</u></u> |

Source: Grand Valley State University financial statements.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance audit of Grand Valley State University had the following objectives:

1. To assess the effectiveness and efficiency of the University's use of resources allocated to support academic and related programs.
2. To assess the effectiveness of the University's monitoring of academic and related programs provided to the students.

Audit Scope

Our audit scope was to examine the program and other records of Grand Valley State University. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

As part of our audit, we prepared, from information compiled by the University, supplemental information (Exhibits 1 through 5). Our audit was not directed toward expressing an opinion on this information and, accordingly, we express no opinion on it.

The financial statements of Grand Valley State University are audited annually by a public accounting firm engaged by the University.

Audit Methodology

Our audit procedures were conducted between March and September 1999 and included examination of the University's records and activities primarily for the period July 1, 1996 through August 31, 1999.

We interviewed various University personnel; reviewed applicable policies, procedures, and reference materials; analyzed available data/statistics; and obtained an understanding of the University's internal control and operational and academic activities to formulate a basis for defining the audit scope.

We evaluated the student admissions and transfer processes; the monitoring of academic progress, including probation, dismissal, and advising; and placement into remedial courses. We reviewed policies for withdrawing from and repeating a course and evaluated academic progress of selected students with repetitive enrollment in the same course. We examined enrollment and graduation trends, tuition costs, graduate placement services, and graduate placement data.

We analyzed data related to class scheduling; minimum class size; classroom utilization; and faculty utilization, including work loads, release time, and overload courses. We evaluated the University's monitoring of technological needs for students, faculty, and administrative staff and its monitoring of degree programs with few graduates.

We assessed the University's compliance with State and University procedures regarding capital construction, renovation, and maintenance projects in progress during the period July 1, 1996 through August 31, 1999. We evaluated the University's process for competitively bidding capital construction projects. We also evaluated the reasonableness of the University's allocation of operating service costs paid by the general fund to the auxiliary activities.

We determined the propriety of the University's endowment funds and whether the funds were spent in accordance with the donor's intent. We reviewed the University's monitoring and awarding of financial aid.

We compared the University's enrollment trends, funding per student, and ratio of students to employees. We also evaluated how the University compared with the other 14 Michigan public universities (see Exhibits 4 and 5).

Agency Responses

Our audit report includes 12 findings and 12 corresponding recommendations. The University's preliminary response indicated that it agreed with 8 recommendations, partially agreed with 2 recommendations, and disagreed with 2 recommendations. An Auditor General epilogue follows the agency preliminary response for 1 recommendation.

The University's preliminary responses to the recommendations in our report were taken from the agency's written comments and oral discussions subsequent to our audit fieldwork. Annual appropriations acts require the principal executive officer of the audited institution to submit a written response to our audit to the Auditor General, the House and Senate Fiscal Agencies, and the Department of Management and Budget. The response is due within 60 days after the audit report has been issued and should specify the action taken by the institution regarding the audit report's recommendations.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVE AND EFFICIENT USE OF UNIVERSITY RESOURCES

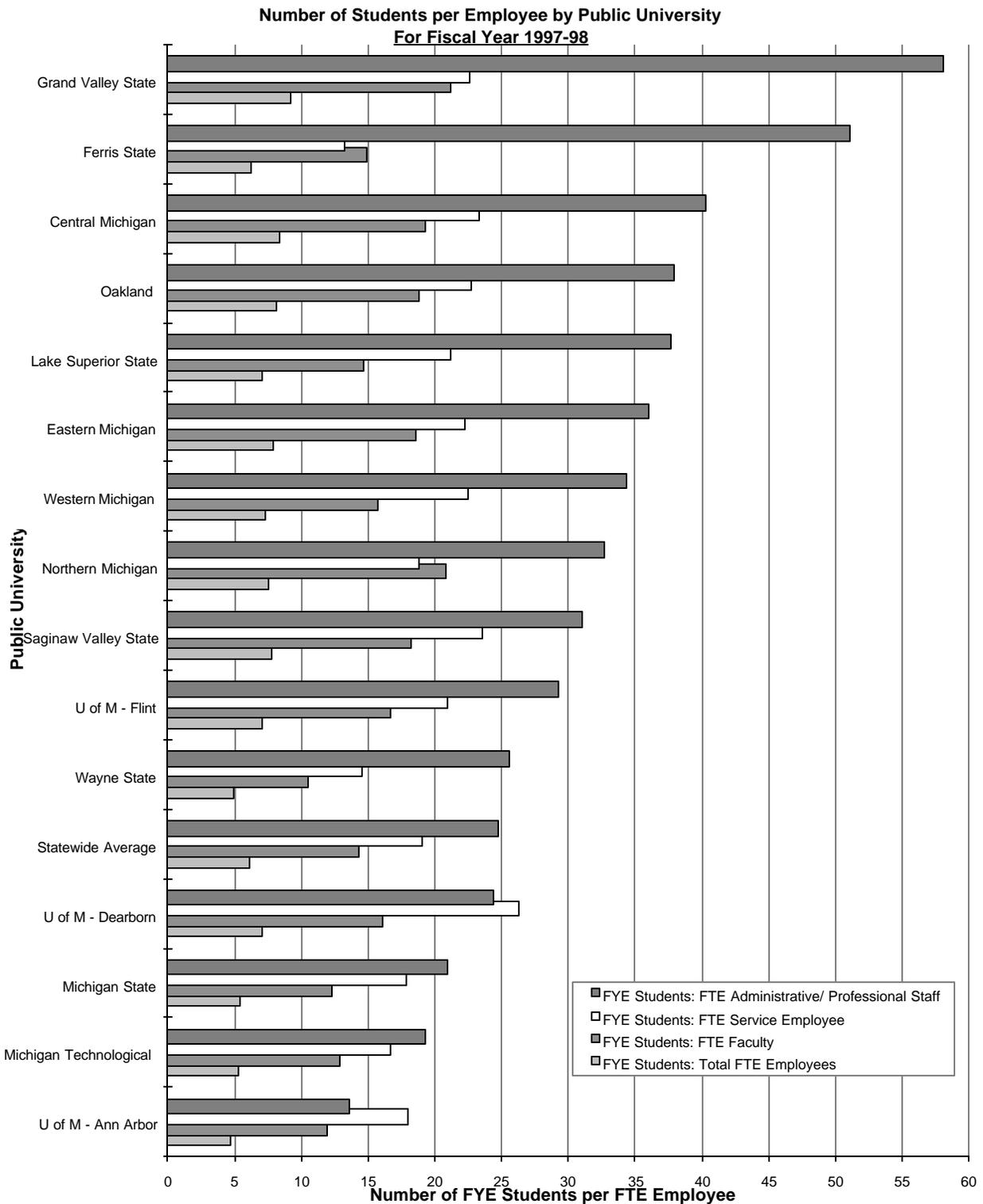
COMMENT

Audit Objective: To assess the effectiveness and efficiency of Grand Valley State University's use of resources allocated to support academic and related programs.

Conclusion: We concluded that the University's use of resources allocated to support academic and related programs was generally effective and efficient. However, our evaluation disclosed reportable conditions related to appointing an internal auditor, following competitive bid procedures, approving construction change orders, developing written policies and procedures, developing physical inventory controls, retaining documentation, accounting for auxiliary activities, and monitoring the food service contract.

Noteworthy Accomplishments: The University has carried out its administrative and academic responsibilities with more students per staff than any of the State's other public universities. The University's ratio of students per administrative/professional staff (58.0:1) was 134% greater than the Statewide average (24.8:1). The University's ratio of students per faculty (21.2:1) was 48% greater than the Statewide average (14.3:1). The University has had to efficiently manage its resources to remain competitive with other State universities. The University was recognized as one of America's 100 best college buys for the past four years by Institutional Research and Evaluation, Inc., a consulting firm that rates America's colleges and universities that

have high academic ranking and low academic costs. The following chart summarizes the number of students per employee for the State's 15 public universities:



Source: Higher Education Institutional Data Inventory (HEIDI) data.

FINDING

1. Internal Auditor

The University could improve its effectiveness by establishing a position for and appointing an internal auditor.

An internal auditor provides a valuable service to the University's Board of Control and the president. An internal auditor helps to ensure that the University's assets are properly safeguarded, that the University is operating effectively and efficiently, and that the University is in compliance with federal, State, and university regulations. An internal auditor routinely tests the organization's internal controls, identifies weaknesses, and makes recommendations for improvements.

In our review of operations, we noted the following weaknesses in the University's internal controls that would come under the scope and review of an internal auditor:

- a. The University did not comply with procedures that required competitive bids for capital construction projects exceeding \$10,000 (Finding 2).
- b. The University did not comply with procedures that required the Board of Control's approval of capital construction project change orders exceeding \$50,000 (Finding 3).
- c. The University did not have written policies and procedures for certain University related responsibilities (Finding 4).
- d. The University's controls for the proper safeguarding of its assets did not provide reasonable assurance that management would be able to detect the unauthorized acquisition, use, or disposition of the University's assets in a timely manner (Finding 5).
- e. The University did not determine if the monthly food service commission revenues and reports from the contractor were accurate (Finding 8).
- f. Although the University was aware that the faculty work load database used to report information to the State was inaccurate, it had not resolved the

inaccuracies. Instead, the University reported statutorily required information inaccurately to the State (Finding 9).

- g. The University had not informed its Career Services Office of the statutory requirement to establish a system to track students who have graduated from the University (Finding 12).

The University's expenditures and transfers for fiscal year 1998-99 were approximately \$186.1 million. Management had not pursued the issue of establishing the position or appointing an internal auditor. The internal audit function is considered an integral part of an organization's internal control. We were informed that the University contracted with its public accounting firm to perform internal audit functions. However, we noted only a few small projects undertaken annually. The University could strengthen its internal control by appointing an internal auditor.

The Legislature has required each principal State department to appoint an internal auditor (Section 18.1486(1) of the *Michigan Compiled Laws*). Although there is no requirement that State public universities appoint an internal auditor, 10 of the other 14 public universities in Michigan have an internal auditor.

RECOMMENDATION

We recommend that the University establish a position for and appoint an internal auditor.

AGENCY PRELIMINARY RESPONSE

The University partially agrees with the recommendation. The University agrees with the Auditor General that internal audits are necessary; however, hiring an internal auditor is not the only way to conduct financial oversight. The University believes that additional financial resources, when available, should first be used to hire faculty and academic support personnel. Therefore, while University staff conduct some internal audits, the University has chosen to appoint a qualified public accounting firm to conduct its internal audit functions rather than hire permanent employees to do this work.

The University's public accounting firm completed 3 major internal audit projects in fiscal year 1996-97 (postage accounts, on-campus housing, and grant compliance requirements), 3 major internal audit projects in fiscal year 1997-98 (intercollegiate athletics cash and revenue handling, Meadows Golf Club cash accounts, and Student Assistance Center), and 4 major internal audit projects in fiscal year 1998-99 (Student Life fees, payroll checks, Seidman School of Business accounts, and accounts payable).

FINDING

2. Competitive Bids

The University often did not use a competitive bidding process* to award contracts related to the University's capital construction projects.

The University's procedures manual requires competitive, sealed bids for all purchases of goods and services exceeding \$10,000. However, the University awarded several contracts without obtaining competitive bids. A typical competitive bidding process involves soliciting sealed bids from either the public or a pre-qualified list of vendors, eliminating the vendors that do not meet the qualifications, collecting and opening sealed bids, reviewing and evaluating bids by a selection committee, selecting the best choice from bids submitted, and having the selection committee present its choice to management.

We reviewed how the University awarded contracts for 5 capital construction projects in progress during the period July 1, 1995 through June 30, 1999. In 3 of the 5 capital construction projects tested, we found instances in which the University had not competitively bid contracts associated with the construction projects. In our review of the 3 projects, we found:

- a. The University did not competitively bid the \$425,000 architect contract for the Art Complex project. It is the University's practice to hire its architectural firms without going through a competitive bid process.

* See glossary at end of report for definition.

- b. The University did not competitively bid the \$390,000 architect contract for the Secchia Hall project. The project manager informed us that this was awarded to the same architect as a nearby project because of the University's desire to keep the two projects similar in appearance.

- c. The University awarded one contractor four separate student housing developments totaling \$25.4 million without obtaining competitive bids for the developments.

Prior to selecting the construction firm for the first and second developments, the University asked four area architectural firms to each recommend construction firms for the development. Four construction firms were recommended by at least two of the architectural firms. Before awarding the contract, the University selected two of the four recommended construction firms, interviewed them, and requested price proposals for the two developments from the two firms. Construction on the first development, referred to as Laker Village I, began in May 1996 with a cost of \$5.0 million. Construction on the second development, referred to as Living Center III, began in July 1996 with a cost of \$3.4 million.

The University indicated that the contract for the third development, referred to as Living Center IV, was negotiated with the contractor of the first and second developments and was based on the University's satisfaction with the contractor's performance on the second project. Construction on the third development began in May 1997 with a cost of \$4.9 million.

The University treated the fourth development, referred to as Laker Village II, as a change order to the contract for the first development. Construction on the fourth development began in 1997 with a cost of \$12.1 million.

Using competitive bidding when awarding contracts helps ensure that the University obtains desired services at competitive prices and that all interested contractors have had an opportunity to compete for a contract. Without formal oversight and competitive bidding, the University has no way of knowing whether it is overpaying for the quality of work it is receiving.

RECOMMENDATION

We recommend that the University use the competitive bidding process to award contracts related to the University's capital construction projects.

AGENCY PRELIMINARY RESPONSE

The University partially agrees with the recommendation. The University always utilizes the competitive bidding process for capital outlay projects in compliance with the Capital Outlay Manual and all other State requirements. (The term "capital outlay construction project" describes State-funded construction projects authorized by the Legislature and financed in part by the State Building Authority.) The University also utilizes the competitive bidding process for construction activities financed by the University (in other words, non-capital outlay projects, such as student housing). The University does not use competitive bidding for hiring architectural services and indicated that there is no requirement by the State to do so; however, the University generally solicits bids for architectural services. The University solicits bids in a way that allows it to use the selected architectural firm as an extension of the University. This practice provides the University with the depth and expertise of a large planning operation without incurring the expense of maintaining it during periods when construction activity is not taking place.

AUDITOR GENERAL EPILOGUE TO UNIVERSITY RESPONSE

The University's response states that it competitively bids State-financed projects. We agree that it does; however, it does this as a condition of receiving State funds. The University also states that it uses a competitive bidding process for projects financed by the University. We do not believe that the process described in item c. can be considered a competitive bidding process.

The University's response also states that it does not use competitive bids but instead solicits bids for architectural services. However, the University used the same architectural firm for nearly all of its construction projects without soliciting competitive bids.

We believe that obtaining competitive bids would not diminish the University's ability to obtain the depth and expertise desired for its construction activities, would not increase costs, and would provide greater public accountability.

FINDING

3. Construction Change Orders

The University did not obtain the required approval of the Board of Control for selected capital construction project change orders.

The University's procedures manual requires Board of Control approval for all construction contract change orders exceeding \$50,000. The Plant Services Division oversees the University's construction projects and is responsible for obtaining any necessary approvals from the Board of Control.

We reviewed the documentation associated with 14 change orders ranging from \$90,000 to \$460,000 and totaling \$2.1 million for 2 capital construction projects. Even though each of the change orders exceeded \$50,000, the Plant Services Division did not obtain the Board of Control's approval for any of these change orders.

Internal control is weakened when an operating division within the University is able to incur major expenditures related to construction change orders without obtaining the required approval from the Board of Control.

RECOMMENDATION

We recommend that the University obtain the required approval of the Board of Control for capital construction project change orders.

AGENCY PRELIMINARY RESPONSE

The University agrees with the recommendation. The section on change orders in the University Policy Manual was written in 1963 and not revised until June 1999. From 1963 through June 1999, the Board of Control approved total project budgets rather than individual change orders. The revised policy, now in place, requires the Board of Control to review and approve any or all of the nine specific elements of any construction project that exceeds \$1.0 million and requires the Board of Control to approve change orders that would cause the project budget to exceed the approved budget.

FINDING

4. Written Policies and Procedures

The University did not have written policies and procedures for certain University related responsibilities.

Written policies and procedures are necessary to provide a basis for establishing and documenting effective internal control. The University did not have written procedures for:

- a. Approving budget overruns in the University's capital maintenance fund. Our testing of capital maintenance projects included 11 projects with budget overruns ranging from 36% to 190%. These projects had an average initial budget of \$44,000 and an average budget overrun of \$33,000 (75%).
- b. Conducting a periodic physical inventory of University assets (Finding 5a). As of June 30, 1998, the University's physical inventory totaled \$9.3 million (net of depreciation) and the University had no plans for a periodic inventory of its assets.
- c. Ensuring that all inventory items assigned to an employee, including the employee's computer, software, and related equipment, were returned to the University when an employee left University employment (Finding 5b).
- d. Granting and approving release time to faculty. The individual divisions and schools established their own acceptable uses of release time. The requests for release time were approved by the provost, but the University did not keep documentation explaining the purpose of release time or the provost's approval.
- e. Approving and quantifying the number of overload courses that faculty members were permitted to teach. The dean of the respective division or school granted approvals for faculty members to teach overload courses. Although there was no procedure, the University's practice was that the dean would not approve more than one overload course per faculty member per semester.

- f. Efficiently managing low enrollment sections of courses offered by the University (Finding 10). Although there was no procedure, the University had an informal minimum enrollment requirement of 12 students per course section. The dean of the respective division or school which offered the course had the authority to either hold or cancel any course section with an enrollment of less than 12 students.
- g. Effectively monitoring repetitive course enrollments (Finding 11). The University's academic progress policy required the achievement of a minimum grade point average but did not limit the number of repetitive enrollments in the same course.
- h. Retaining documentation related to the purpose and proper distribution of endowment funds.

The lack of written policies and procedures impacts the effectiveness and efficiency of University operations and hinders the consistency of University practices among the divisions and schools. Written procedures are also valuable in training new employees and serve as guides for better administration and control over operations.

RECOMMENDATION

We recommend that the University develop written policies and procedures for certain University related responsibilities.

AGENCY PRELIMINARY RESPONSE

The University agrees with the recommendation. University administration is in the process of writing expanded policies and procedures and will disseminate them to the appropriate persons within the University.

FINDING

5. **Physical Inventory Controls**

The University did not have an effective system to monitor and control equipment.

Equipment purchases of \$2,000 or more are recorded on the University's equipment inventory records. In our review of the University's equipment inventory controls, we determined:

- a. The University had not conducted and did not have procedures to conduct a periodic physical inventory. As of the fiscal year ended June 30, 1998, the University's records reported physical inventory totaling \$9.3 million (net of depreciation).
- b. The University did not ensure that all inventory items assigned to an employee were returned to the University when an employee left University employment. The University had procedures for distributing inventory as it was acquired and had records indicating who was assigned the inventory items. However, the University did not have procedures to ensure that all inventory, including the employee's computer, software, and related equipment, were accounted for prior to the employee's departure.

Basic inventory controls should include an accurate record of the University's inventory, including acquisitions and disposals, and a periodic physical inventory to determine that inventory items are still functional and in the University's custody. These basic controls reduce the risk of inventory loss and ensure the accuracy of reported inventory information.

Without periodic monitoring of its physical inventory and ensuring that inventory is returned when employees leave University employment, the University does not have assurance that its inventory items have been properly accounted for.

RECOMMENDATION

We recommend that the University establish a system to monitor and control equipment.

AGENCY PRELIMINARY RESPONSE

The University agrees with the recommendation. The University maintains inventory records but does not perform a periodic physical inventory. The University departments are responsible for maintaining and retaining equipment and typically recognize immediately if a piece of equipment has been removed. The University believes that this is a more effective way to control inventory than with a system dependent on a physical inventory; however, the University remains open to any proposed improvement in its inventory system.

FINDING

6. Documentation Retention

The University did not retain documentation necessary to support the University's efficient use of resources.

In our review of University operations, we noted:

- a. The University did not properly document its process used to award contracts associated with its capital construction projects. We reviewed 18 contracts from files for 5 capital construction projects that were in progress during the period July 1, 1995 through June 30, 1999. The 18 contracts in our review included 5 architectural contracts, 5 project contractor or construction manager contracts, and 8 miscellaneous contracts. Our review disclosed the following documentation weaknesses:
 - (1) In 1 of 5 project files, the University did not document its basis for selecting the project contractor for the construction project. The contractor selected had not submitted the lowest bid for the contract. The files did not offer documentation of why the University did not award the contract to the lowest bidder.
 - (2) For 3 contracts let out for bid, the University did not retain the original price proposals submitted by each bidder.

- (3) In 3 of 14 contracts for which the University obtained competitive bids, the University did not utilize bid tabulation sheets. Bid tabulation sheets serve as a record of the sealed bids as they are opened.

Maintaining proper documentation of the competitive bidding process is necessary to uphold the integrity of the process and to support the propriety of contract awards.

- b. The University did not keep signed copies of contract modifications and contract change orders for some capital project contracts. We reviewed 3 contract modifications and 18 contract change orders from files for 2 capital construction projects. We found 4 incidents in which the University could not locate signed copies authorizing the contract modifications and contract change orders. The unsigned contract modifications and contract change orders totaled \$1.6 million. The University's ability to enforce the provisions of these contract modifications and contract change orders is significantly reduced when the University cannot produce a signed contract.
- c. The University did not keep documentation explaining why individual courses were canceled. Within each division or school, the head of a unit can request the cancellation of a course by completing a course change form. The cancellation is approved by the division or school administrator. Even though the administrator was aware of the reason for the cancellation at the time of the request, this information was not documented.

To help support the propriety of canceled courses and to manage academic programs, the divisions and schools should retain documentation explaining why individual courses were canceled.

RECOMMENDATION

We recommend that the University retain documentation necessary to support the University's efficient use of resources.

AGENCY PRELIMINARY RESPONSE

The University agrees with the recommendation that the University can improve its records retention activities. The University informed us that its shortage of staff and

space has contributed to some weakness in document retention. The University also informed us that it has subcontracted construction management activities and that some of the documents mentioned by the Auditor General are, in fact, retained in the files of subcontractors.

FINDING

7. Auxiliary Activities

The University did not allocate general fund operating costs to all benefiting auxiliary activities.

Generally accepted accounting principles require the University to charge auxiliary activities, which are substantially self-supporting operations, for all direct and indirect operating costs related to their operations. These costs include administrative overhead, utilities, insurance, and other costs. The University's general fund paid for the University's general operating expenditures and then allocated these expenditures to the University's auxiliary activities.

The indirect operating costs of the University's child day care center were not included in the University's cost allocation methodology for auxiliary activities. The child day care center was one of the University's auxiliary activities. Instead, the University's general fund paid for the child day care center's indirect operating costs. This resulted in an understatement of auxiliary activities expenditures and an overstatement of general fund expenditures.

RECOMMENDATION

We recommend that the University allocate general fund operating costs to all benefiting auxiliary activities.

AGENCY PRELIMINARY RESPONSE

The University agrees with the recommendation. The Auditor General found that \$3,800 in overhead charges was underbilled in fiscal year 1997-98, as compared to total auxiliary charges of \$1,928,383. The University informed us that it is billing its child care center at the correct overhead rate in the current fiscal year.

FINDING

8. Food Service Contract

The University did not verify the accuracy of the food service commissions received from the University's food service contractor.

The University contracted with one food service contractor to provide food court and dining services at several locations on the Allendale campus. During fiscal year 1997-98, the University's commissions from the food service contract totaled approximately \$175,000.

The University did not determine if the monthly food service commission revenues and reports received from the contractor were accurate. The University did not reconcile cash register totals with contractor reports and did not review the controls and records maintained by the contractor.

Without routine reconciliations and other monitoring of the food service reports, management's oversight of the food service contract is reduced. Further, the University has less assurance of the accuracy of commissions remitted to the University.

RECOMMENDATION

We recommend that the University verify the accuracy of the food service commissions received from the University's food service contractor.

AGENCY PRELIMINARY RESPONSE

The University agrees with the recommendation and informed us that it has exercised its contractual right to audit the books of the University's food service contractor in the current fiscal year. The food service contractor is under a legally binding contract to pay certain commissions to the University. The University informed us that it reviews the food service contractor's transactions at least three times annually and believes that these reviews would ordinarily disclose any deviation from the payment of commissions due.

EFFECTIVENESS OF THE UNIVERSITY'S MONITORING OF ACADEMIC AND RELATED PROGRAMS

COMMENT

Audit Objective: To assess the effectiveness of the University's monitoring of academic and related programs provided to the students.

Conclusion: We concluded that the University's monitoring of academic and related programs provided to the students was generally effective. However, we noted reportable conditions related to faculty work load, minimum course enrollment, repetitive course enrollments, and graduate placement statistics.

FINDING

9. Faculty Work Load

The University had not established effective controls to help ensure the accuracy of faculty work load information included in the University's database and reported to the State.

Language included in the annual higher education appropriations act (Section 705, Act 271, P.A. 1998) requires all State universities to annually report to the State their faculty work load information, including the number of faculty and graduate assistants who taught undergraduate courses and the total number of undergraduate credit hours taught.

The University annually reports this information based on data included in the University's database. We tested the accuracy of the faculty work load information submitted to the State for 31 faculty for 6 consecutive semesters by comparing the work load information in the University's database to work load information obtained from each faculty member's division or school. We found discrepancies in 116 of the 186 semester work load schedules. These discrepancies ranged from 1 to 26 contact hours per work load schedule. The University's database indicated an average work load of 9.5 classroom contact hours per semester per faculty member for the 31 faculty members, while records from the faculty member's division or school indicated an average work load of 8.3 contact hours

per semester per faculty member. For these 31 faculty members, the University overreported 37.6 classroom contact hours per semester.

The University informed us that it was aware that the database used to report information to the State was inaccurate but had not resolved the inaccuracies. As a result, the University did not accurately report faculty work load information to the State.

RECOMMENDATION

We recommend that the University establish effective controls to help ensure the accuracy of faculty work load information included in the University's database and reported to the State.

AGENCY PRELIMINARY RESPONSE

The University agrees with the recommendation. The University informed us that it reminded the academic deans of the importance of accurately reporting course assignments and providing complete information thereon to the Department of Management and Budget.

FINDING

10. Minimum Course Enrollment

The University had not established a policy to efficiently manage low enrollment sections of courses offered by the University.

The University had an informal minimum enrollment requirement of 12 students per course section. The dean of the respective division or school that offered the course had the authority to either hold or cancel any course section with an enrollment of less than 12 students. The deans' decisions did not require a higher level University approval. For the purpose of scheduling courses, the University had established a maximum capacity* for each classroom. This maximum capacity

* See glossary at end of report for definition.

dictated the largest number of students that could take a specific section of a course.

We analyzed the student enrollment information for one of the University's largest divisions for fall semester 1997 and winter semester 1998. The division offered 571 and 617 course sections during the fall and winter semesters, respectively.

During the two semesters, we identified 81 course sections with less than 12 students enrolled. Our analysis of these 81 courses disclosed:

- a. Twenty-five course sections were for courses required for a degree program and were offered only one semester a year. These 25 course sections had an average enrollment of 7.2 students.
- b. Thirteen course sections were for courses required for a degree program. Each of these courses were offered at least one other semester during the school year. These 13 course sections had an average enrollment of 7.2 students.
- c. Forty-three course sections were for elective courses not required for a degree program. These 43 course sections had an average enrollment of 6.2 students.

There are several reasons why the University may want to offer certain classes in spite of low enrollment. A written policy would help to ensure that holding these classes was an effective use of University resources.

The establishment of a minimum class section size policy would provide the University with the opportunity to identify an acceptable minimum enrollment level for course sections, to identify conditions for offering a course section when enrollment is below a minimum level, and to identify who could approve offering a course section when its enrollment did not meet the minimum enrollment level. The monitoring of course section size is essential because of its impact on the number of classrooms and faculty available for other higher demand courses. If not effectively monitored, this can result in an inefficient use of the University's resources.

RECOMMENDATION

We recommend that the University establish a policy to efficiently manage the low enrollment sections of courses offered by the University.

AGENCY PRELIMINARY RESPONSE

The University respectfully disagrees with the Auditor General's recommendation. The University's policy is to leave course offerings to the academic deans who know best the circumstances affecting departmental enrollment patterns. The University informed us that a review of department-by-department enrollment shows total enrollment sufficient to maintain all of the University's degree programs.

FINDING

11. Repetitive Course Enrollments

The University had not established a policy to effectively monitor repetitive course enrollments.

Academic progress is the progression toward completion of course work required for a degree. The University's current academic progress policy requires the achievement of a minimum grade point average, but does not establish a limit to repetitive course enrollments.

We analyzed the University's summary information of students who were enrolled in a course for at least the fourth time during winter semester 1999. Our analysis disclosed 69 instances in which 61 students were enrolled in the same course four or more times. The following table summarizes those courses with more than one

student enrolled for the fourth or more time for winter semester 1999 and the range of times these students had enrolled in the course:

| <u>Course Title</u> | <u>Number of Students</u> | <u>Range of Times Enrolled</u> |
|---------------------------------|-----------------------------------|--|
| Algebra | 9 | 4 - 6 |
| Human Anatomy | 7 | 4 - 5 |
| Introductory Applied Statistics | 7 | 4 - 8 |
| Strategies in Writing | 3 | 4 - 6 |
| Biological Chemistry | 2 | 4 - 8 |
| Labor and Employment Law | 2 | 5 - 7 |

We also determined that, in 34 of the 69 instances, the student had withdrawn from the same course two or more times. We identified one student withdrawing from the same course seven times, and another student withdrawing from another course eight times. The University's policy permits students to withdraw from a course any time after the first week of the semester and before the end of the eighth week of the semester with a withdrawal recorded on the student's transcript. The University does not keep a record on the student's transcript when a student withdraws from the course during the first week of classes.

We reviewed the transcripts for 12 of the 61 students who were repeating a course for the fourth or more time during winter semester 1999. We compared the number of University credits earned to the total number of University credits

attempted and to the number of credits attempted in repeat courses. The following table summarizes the results of our review:

| Student | Total Number and Percentage of Credits Earned | Total Credits Attempted | Total Credits Repeated |
|---------|---|-------------------------------|------------------------------|
| A | 43 (66%) | 65 | 16 |
| B | 76 (74%) | 103 | 23 |
| C | 24 (28%) | 87 | 33 |
| D | 136 (57%) | 240 | 47 |
| E | 45 (52%) | 86 | 26 |
| F | 29 (26%) | 113 | 31 |
| G | 115 (63%) | 183 | 36 |
| H | 65 (50%) | 131 | 56 |
| I | 44 (55%) | 80 | 33 |
| J | 140 (69%) | 204 | 33 |
| K | 25 (31%) | 81 | 38 |
| L | 83 (44%) | 187 | 70 |

Generally, repetitive enrollment indicates a lack of academic progress and results in an inefficient use of resources. Because the tuition paid by students represents only 52% of the total costs of enrolling in a course, allowing students to repetitively enroll in the same courses may result in an inefficient use of State appropriations and University resources.

The establishment of reasonable limitations on repetitive enrollments would provide the University with the opportunity to identify and counsel students who are not progressing satisfactorily. We reviewed the policies of other public universities in Michigan. One university did not allow a student to take a course more than three times, including withdrawals. Another university dismissed a student at the end of the semester in which the student had repeated 21 or more credits. As noted in the preceding table, 11 of the 12 students had repeated more than 21 credits, including 1 student who had repeated 70 credits.

RECOMMENDATION

We recommend that the University establish a policy to effectively monitor repetitive course enrollments.

AGENCY PRELIMINARY RESPONSE

The University respectfully disagrees with the Auditor General's recommendation. The University informed us that its Faculty Governance has addressed this matter and concluded that it would be unwise to limit the number of times a student may take a given course.

FINDING

12. Graduate Placement Statistics

The University had not established an effective system to properly monitor and accurately report employment and placement statistics of its graduates.

The annual higher education appropriations act requires each State university to establish a system to track students who have graduated from the university. The system shall minimally provide information regarding the students' field of study and year of graduation; whether they are employed or continuing their education; the field in which they are employed or their subsequent field of academic study; and their job title, salary, and place of residence.

Although the Career Services Office was not aware of the requirements of the higher education appropriations act, it annually surveyed the prior year graduating students to obtain information about them. The University's survey requested data on all but one of the items specified in statute. The University's survey did not request information on the field in which the student was employed.

The Career Services Office prepared an annual report on employment statistics based on the results of its survey. The report summarized the following by degree: the number of graduates, the number of graduates responding to the survey, the number of graduates employed, the number of graduates employed directly, the number of graduates who pursued alternate activities (e.g., traveling or homemaking), and the number of graduates attending a graduate school.

The Career Services Office developed two questions to determine whether the graduate was employed directly in his/her field. The two questions were:

- a. "Do you feel this job is related to your college education?"
- b. "Do you feel that being a college graduate was a positive factor?"

Career Services Office staff informed us that the intent of the questions was to measure the extent to which graduates believed that they had obtained their jobs as a result of their overall education and not just based on the education they received in their degree program. An affirmative response to either one of the two questions was tabulated as "employed directly" in the University's annual report. While an affirmative response to the first question would indicate that the graduate was employed directly, a similar conclusion cannot be drawn from an affirmative response to the second question.

We compared the employment statistics in the 1997-98 Annual Career Services Employment Report to the Office's supporting documentation for 424 graduates in 11 degree programs. We recomputed the number of graduates employed directly in their field based on our review of supporting documentation. We noted several data entry errors. The following table summarizes the results of our review:

| Degree | Number Responding | Employed Directly | |
|-----------------------|-------------------|-------------------|-----------------------------------|
| | | Per Annual Report | Based on University Documentation |
| Biology (B) | 40 | 63% | 45% |
| Criminal Justice (B) | 66 | 79% | 55% |
| Education (M) | 111 | 95% | 93% |
| Engineering (B) | 30 | 97% | 97% |
| English (B) | 68 | 76% | 71% |
| Health Science (B) | 92 | 35% | 29% |
| Management (B) | 42 | 88% | 88% |
| Reading (M) | 19 | 100% | 100% |
| Sociology (B) | 16 | 56% | 38% |
| Social Work (M) | 66 | 97% | 92% |
| Special Education (B) | 61 | 93% | 92% |

(B) Bachelor's degree

(M) Master's degree

Using data from the survey, the University annually reported in its college catalog the percentage of graduates employed in a job directly related to their degree for selected degree programs.

The University is responsible for providing accurate and reliable information about itself and its graduates to the public. Students' and potential students' academic, career, and university choices may be influenced by the University's employment statistics.

RECOMMENDATION

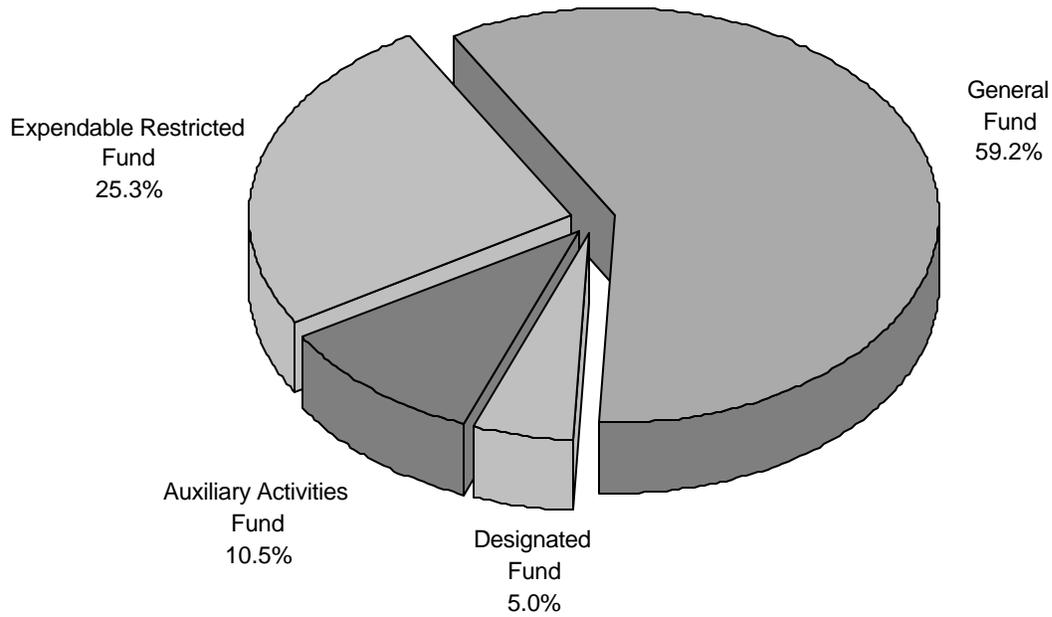
We recommend that the University establish an effective system to properly monitor and accurately report employment and placement statistics of its graduates.

AGENCY PRELIMINARY RESPONSE

The University agrees that its required report to the State contained omissions. The University stated that this was unintentional, as it had accumulated the data in question. The University informed us that it regrets the error and will report this information accurately in the future.

SUPPLEMENTAL INFORMATION

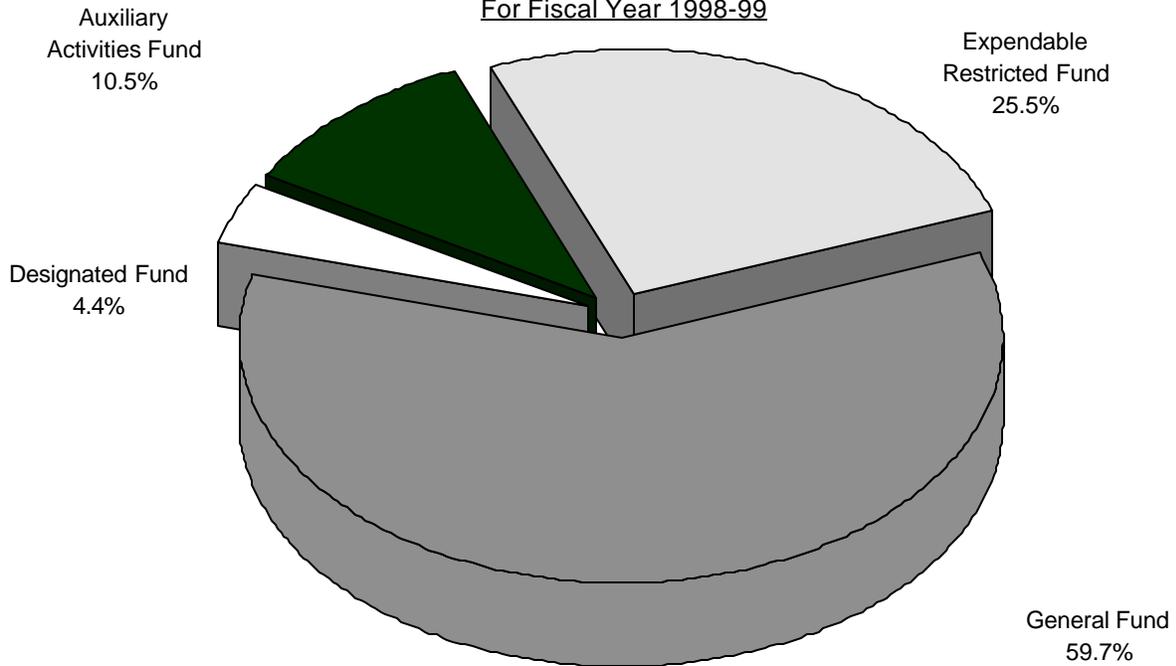
GRAND VALLEY STATE UNIVERSITY
Current Fund Revenues
For Fiscal Year 1998-99



| | <u>Amount</u> |
|----------------------------|----------------------------------|
| General fund | \$ 111,017,337 |
| Designated fund | 9,468,262 |
| Auxiliary activities fund | 19,629,717 |
| Expendable restricted fund | <u>47,415,634</u> |
| Total Revenues | <u><u>\$ 187,530,950</u></u> |

Source: Grand Valley State University financial statements.

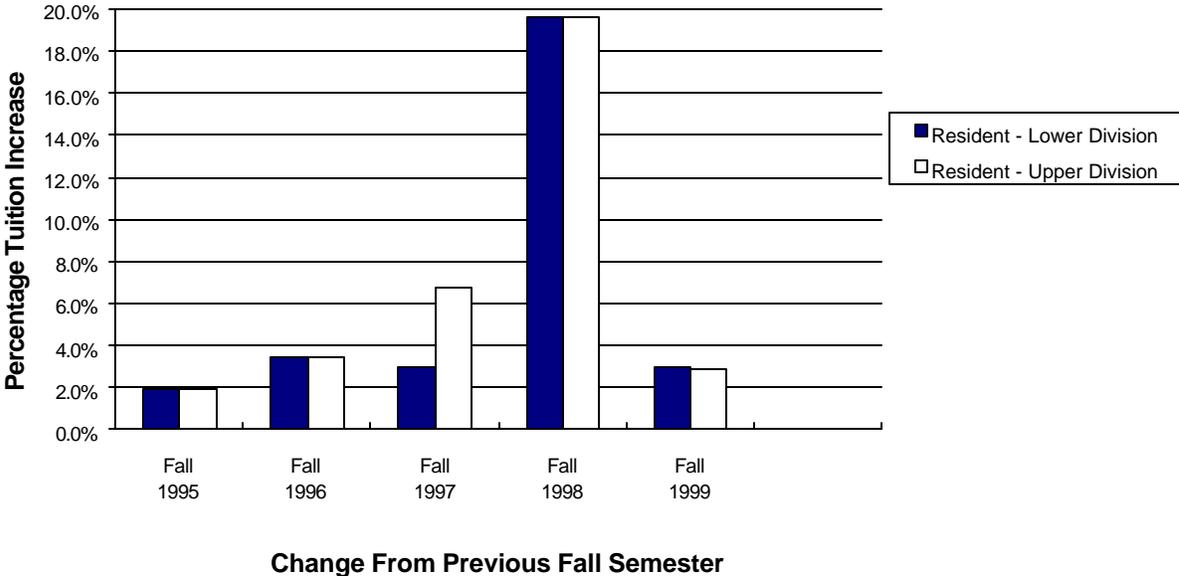
GRAND VALLEY STATE UNIVERSITY
Current Fund Expenditures and Transfers
For Fiscal Year 1998-99



| | <u>Amount</u> |
|--------------------------------------|----------------------------------|
| General fund | \$ 111,010,724 |
| Designated fund | 8,097,551 |
| Auxiliary activities fund | 19,547,026 |
| Expendable restricted fund | <u>47,415,634</u> |
| Total Expenditures and Transfers | <u><u>\$ 186,070,935</u></u> |

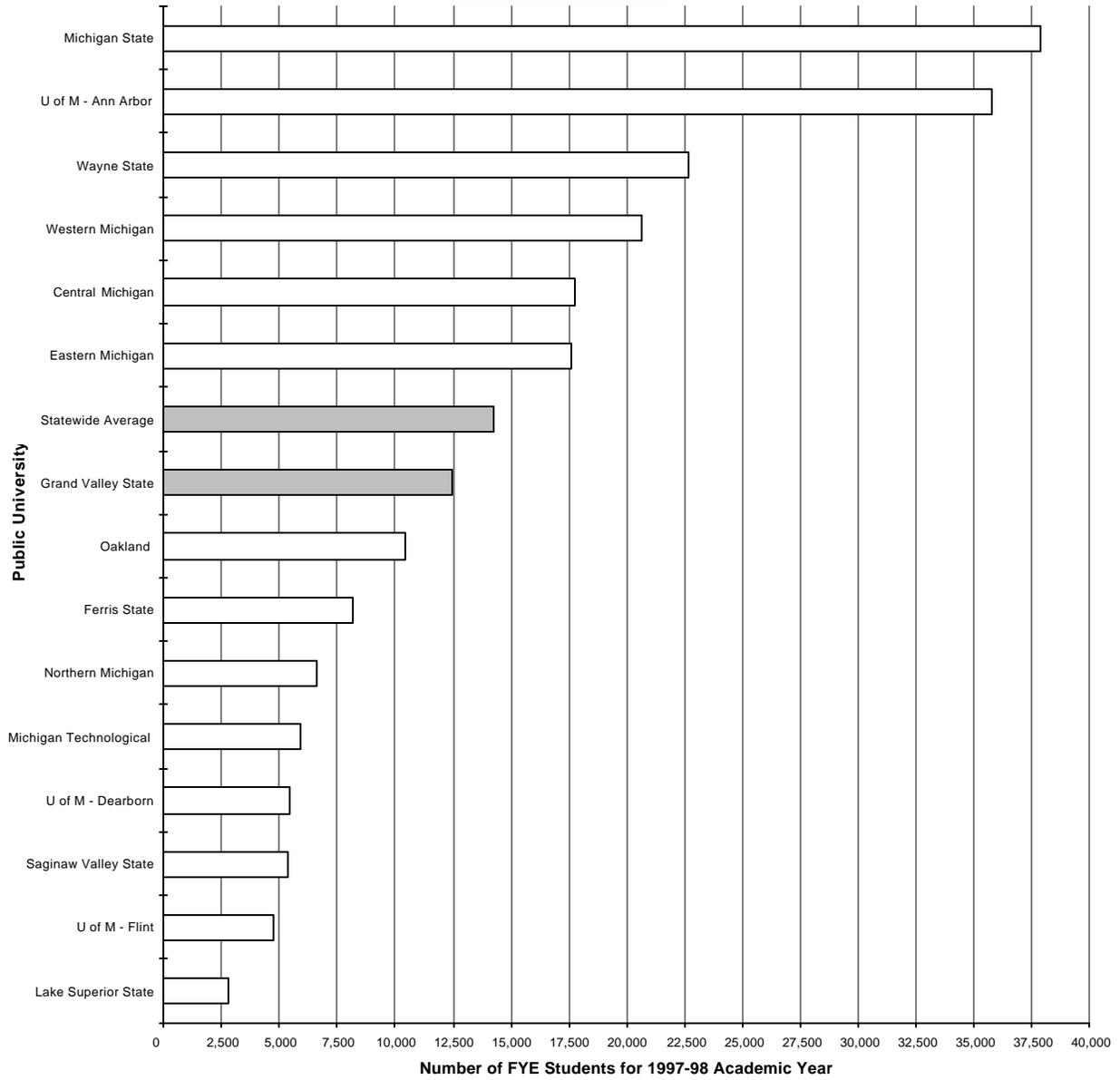
Source: Grand Valley State University financial statements.

GRAND VALLEY STATE UNIVERSITY
Five-Year Summary of Annual Tuition Increases
For the Period Fall 1995 through Fall 1999



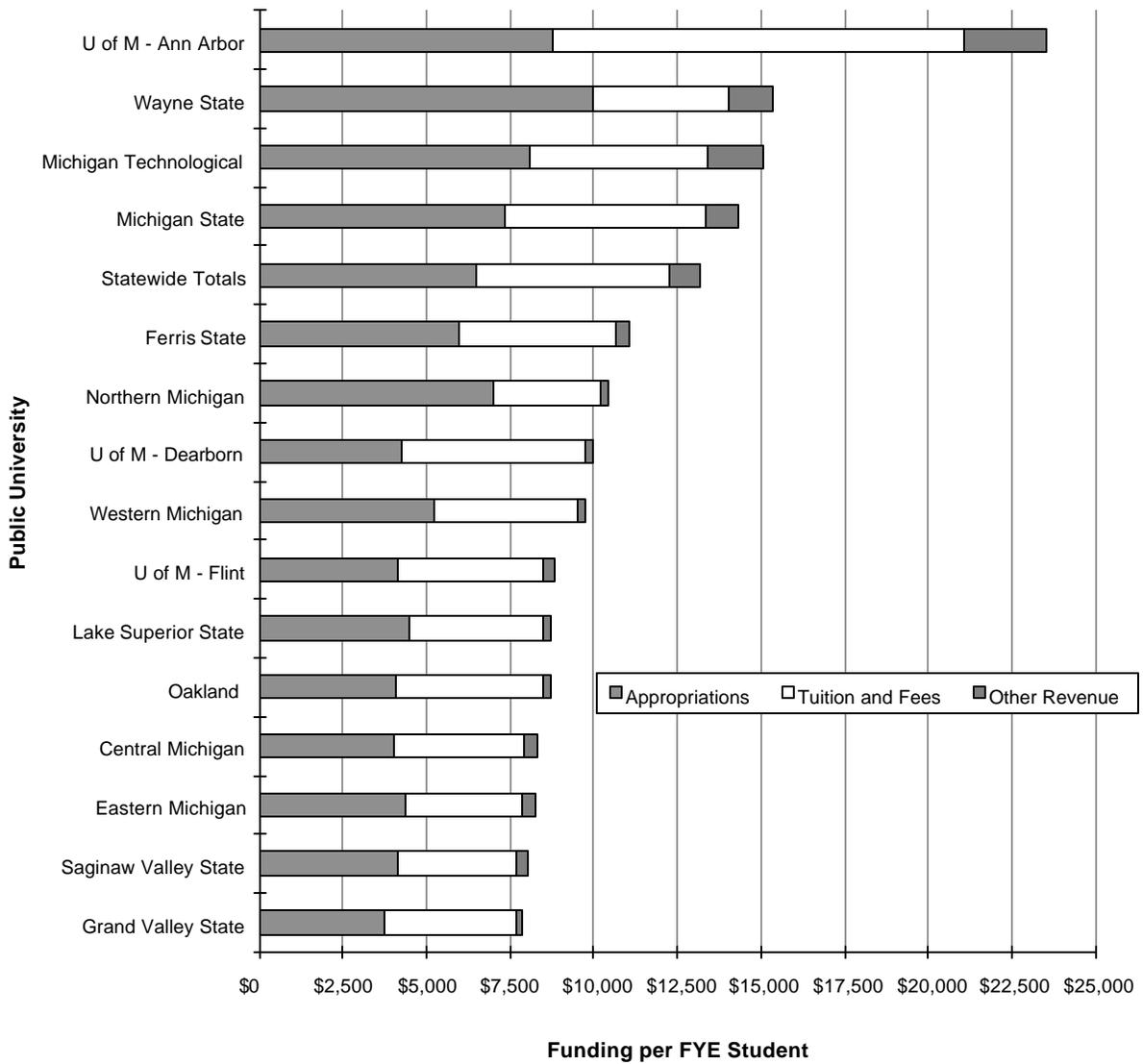
Source: Grand Valley State University enrollment data.

GRAND VALLEY STATE UNIVERSITY
Statewide Enrollment by Public University
For Fiscal Year 1997-98



Source: Higher Education Institutional Data Inventory (HEIDI) data.

GRAND VALLEY STATE UNIVERSITY
Per Student Funding From General Fund Sources
By Public University
For Fiscal Year 1997-98



Source: Higher Education Institutional Data Inventory (HEIDI) data.

Glossary of Acronyms and Terms

| | |
|-----------------------------|---|
| academic progress | The progression toward completion of course work required for a degree. |
| capital construction | A construction project funded by the University or other sources resulting in the acquisition of, or addition to, the University's fixed assets. |
| classroom utilization | The proportion of time that classrooms are utilized for class sessions during regularly scheduled class times. |
| competitive bidding process | A typical competitive bidding process involves soliciting sealed bids from either the public or a pre-qualified list of vendors, eliminating the vendors that do not meet the qualifications, collecting and opening sealed bids, reviewing and evaluating bids by a selection committee, selecting the best choice from bids submitted, and having the selection committee present its choice to management. |
| degree programs | Any of the 92 undergraduate or 17 graduate academic programs offered by the University. |
| effectiveness | Program success in achieving mission and goals. |
| efficiency | Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes. |
| FTE | full-time equated. |
| full-time equated student | A full-time equated student is based on 15.5 credit hours per semester for an undergraduate level student and 12 credit hours per semester for a graduate level student. |

| | |
|-------------------------------|---|
| FYE | fiscal year equated. |
| graduate placement statistics | Data gathered on students who have graduated from the University. Data includes the students' field of study and year of graduation; whether they are employed directly, their job title, and their salary; whether they are continuing their education; and their place of residence. |
| headcount | An enrollment term based on the actual number of students, regardless of the number of credit hours enrolled. |
| internal control | The management control environment, management information system, and control policies and procedures established by management to provide reasonable assurance that goals are met; that resources are used in compliance with laws and regulations; and that valid and reliable performance related information is obtained and reported. |
| lower division | A classification of students in either their freshmen or sophomore year of instruction. |
| maximum capacity | The largest number of students that could attend a course in a given classroom. |
| minimum course enrollment | The lowest number of students enrolled in a specific section of a course, before canceling the section. |
| NCA | North Central Association of Colleges and Schools. |
| overload | Additional contact hours assigned to a faculty member beyond his/her normal work load. A normal work load is required for full-time faculty and consists of 12 contact hours per semester for a total of 24 contact hours per school year or equivalent. |

| | |
|-----------------------|--|
| performance audit | An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action. |
| release time | Time assigned to a faculty member to complete special, nonteaching duties. Faculty members are "released" from teaching a normal work load without affecting their full-time status. |
| remedial course | A basic course in English or math designed to correct a student's academic deficiencies prior to enrollment in college-level courses. |
| repetitive enrollment | To enroll in a subsequent semester in the same course that a student previously had been enrolled in. |
| reportable condition | A matter coming to the auditor's attention that, in the auditor's judgment should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner. |
| temporary faculty | Faculty members appointed for only one semester. |
| U of M | University of Michigan. |
| upper division | A classification of students in either their junior or senior year of instruction. |