

PERFORMANCE AUDIT
OF
LAKE SUPERIOR STATE UNIVERSITY

February 2001

EXECUTIVE DIGEST

LAKE SUPERIOR STATE UNIVERSITY

INTRODUCTION	This report, issued in February 2001, contains the results of our performance audit* of Lake Superior State University (LSSU).
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	<p>LSSU was established in 1946 as a branch campus of the Michigan College of Mining and Technology (now Michigan Technological University). In 1966, by action of the Michigan Technological University Board of Control, the branch campus became known as the Lake Superior State College of Michigan Technological University. It became a separate institution of higher education on January 1, 1970 by Act 26, P.A. 1969. LSSU is located in Sault Ste. Marie, in Michigan's northeastern Upper Peninsula.</p> <p>LSSU's mission* is to offer challenging undergraduate programs and services to students and other constituencies from its region and from the rest of Michigan, Ontario, and the near Midwest.</p>

* See glossary at end of report for definition.

For fall semester 2000, LSSU had 3,008 students enrolled on the Sault Ste. Marie campus and at the four regional centers* located in Alpena, Escanaba, Petoskey, and Traverse City. LSSU had 2,709 fiscal year equated* students during fiscal year 1999-2000.

As of August 31, 2000, LSSU had 120 full-time and approximately 70 part-time and temporary faculty and 232 full-time and 27 part-time administrative and support personnel. For the fiscal year ended June 30, 2000, current fund revenues were \$39.5 million (Exhibit 1) and current fund expenditures and transfers were \$41.8 million (Exhibit 2).

AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS

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

Conclusion: We concluded that LSSU was generally effective in its monitoring of academic and related programs provided to students. However, we noted reportable conditions* related to academic advising and repetitive course enrollments* (Findings 1 and 2).

Noteworthy Accomplishments: LSSU was first accredited by the Commission on Institutions of Higher Education of the North Central Association of Colleges and Schools in 1946, when it was a branch campus of the Michigan College of Mining and Technology (now Michigan Technological University). LSSU has retained its accreditation without interruption to the present. Also, many of LSSU's academic schools and programs are accredited periodically by various accrediting bodies.

* See glossary at end of report for definition.

LSSU established a formal academic program review process in October 1999. Each of LSSU's programs is required to be assessed annually. LSSU prepares the assessments to evaluate the programs' effectiveness in meeting LSSU's goals and achieving student success and to facilitate continuous improvement. The academic program review process complements LSSU's annual strategic planning process, which was established in 1994.

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

Conclusion: We concluded that LSSU was generally effective and efficient in its use of resources allocated to support academic and related programs. However, we noted reportable conditions related to regional center operations, minimum class size*, room utilization*, and cost allocations to the auxiliary activities fund (Findings 3 through 6).

Noteworthy Accomplishments: LSSU reduced tuition by 0.5% for the 2000-01 academic year. The average tuition increase for Michigan's public colleges and universities was just over 3% for the 2000-01 academic year. LSSU is the only public university in Michigan to lower undergraduate tuition in the past 10 years.

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of Lake Superior 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.

* See glossary at end of report for definition.

Our audit procedures included examination of LSSU's records and activities primarily for the period July 1, 1997 through August 31, 2000.

We conducted a preliminary review of LSSU operations to formulate a basis for defining the audit scope.

We evaluated LSSU's policies and procedures relating to student academic progress*. Also, we reviewed LSSU's practices relating to repetitive enrollments in the same course.

We examined LSSU's methods for ensuring the quality of its academics, including performing program evaluations. We determined the extent to which LSSU's programs were accredited.

We assessed the efficiency of LSSU's use of resources by evaluating policies and procedures and analyzing data relating to minimum class sizes; classroom utilization; and faculty utilization, including work loads, overload* courses, and release time.

We reviewed financial and other information related to LSSU's four regional centers, located in Alpena, Escanaba, Petoskey, and Traverse City. In addition, we determined whether LSSU had evaluated the potential impact on the regional centers of the elimination of the Master of Business Administration (MBA) program, which will be phased out by August 2003.

We determined LSSU's compliance with State and LSSU policies and procedures regarding capital construction and renovation projects in progress from 1998 through the completion of our fieldwork. Also, we evaluated the

* See glossary at end of report for definition.

reasonableness of LSSU's allocation of operating service costs paid by the general fund to the auxiliary activities.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report includes 6 findings and 8 corresponding recommendations. LSSU's preliminary response indicated that it agreed with all of the recommendations.

We repeated the one prior audit recommendation that was included within the scope of this audit.

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February 28, 2001

Mr. William R. Gregory, Chair
Board of Trustees
and
Dr. Robert Arbuckle, President
Lake Superior State University
Sault Ste. Marie, Michigan

Dear Mr. Gregory and Dr. Arbuckle:

This is our report on the performance audit of Lake Superior State University.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; 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 Lake Superior State 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

Lake Superior State University (LSSU) was established in 1946 as a branch campus of the Michigan College of Mining and Technology (now Michigan Technological University). In 1966, by action of the Michigan Technological University Board of Control, the branch campus became known as the Lake Superior State College of Michigan Technological University. It became a separate institution of higher education on January 1, 1970 by Act 26, P.A. 1969. LSSU is located in Sault Ste. Marie, in Michigan's northeastern Upper Peninsula.

LSSU is primarily an undergraduate instructional institution that offers a master's degree (which will be phased out by August 2003), bachelor's degrees (40 programs), associate's degrees (23 programs), and certificate programs (3 programs). LSSU is governed by its Board of Trustees, which consists of eight members who are appointed by the Governor, with the advice and consent of the Senate, for eight-year terms.

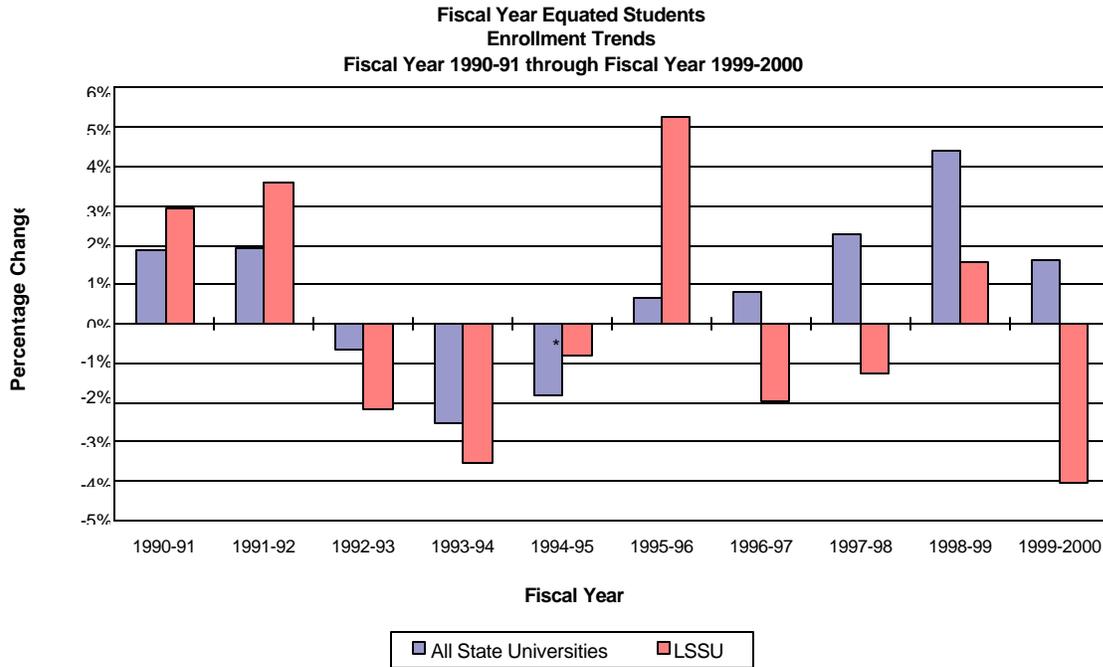
LSSU's mission is to offer challenging undergraduate programs and services to students and other constituencies from its region and from the rest of Michigan, Ontario, and the near Midwest. LSSU accomplishes its mission by presenting a personal approach to education through a small, collegial, and diverse community in which all of its constituencies share in the teaching, research, and regional service activities of the institution.

LSSU is accredited by the North Central Association of Colleges and Schools and is conducting an academic self-study in preparation for an Association evaluation visit in February 2001. A number of LSSU's academic schools and programs are also accredited periodically by various accrediting bodies.

For fall semester 2000, LSSU had 3,008 students enrolled on the Sault Ste. Marie campus and at the four regional centers located in Alpena, Escanaba, Petoskey, and Traverse City. LSSU had 2,709 fiscal year equated students during fiscal

year 1999-2000. The following chart summarizes the percentage changes in LSSU's fiscal year equated students over a ten-year period:

UNAUDITED



Source: Presidents Council, State Universities of Michigan

As of August 31, 2000, LSSU had 120 full-time and approximately 70 part-time and temporary faculty and 232 full-time and 27 part-time administrative and support personnel. For the fiscal year ended June 30, 2000, current fund revenues were \$39.5 million (Exhibit 1) and current fund expenditures and transfers were \$41.8 million (Exhibit 2).

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit of Lake Superior State University (LSSU) had the following objectives:

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

Audit Scope

Our audit scope was to examine the program and other records of Lake Superior 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 LSSU, supplemental information (Exhibits 1 through 5) that relates to our audit objectives. Our audit was not directed toward expressing an opinion on this information and, accordingly, we express no opinion on it.

The financial statements of LSSU are audited annually by a public accounting firm engaged by LSSU.

Audit Methodology

Our audit procedures, conducted from June through September 2000, included examination of LSSU's records and activities primarily for the period July 1, 1997 through August 31, 2000.

We conducted a preliminary review of LSSU operations to formulate a basis for defining the audit scope. Our review included interviewing LSSU personnel, reviewing applicable policies and procedures, analyzing available data and statistics, reviewing

reference materials, and obtaining an understanding of LSSU's internal control and operational and academic activities.

We evaluated LSSU's policies and procedures relating to student academic progress, including admissions and student placement in remedial courses and the advising of and provision of needed services to students. Also, we reviewed LSSU's practices relating to repetitive enrollments in the same course.

We examined LSSU's methods for ensuring the quality of its academics, including performing program evaluations and making changes as needed. We determined the extent to which LSSU used student and employer surveys and advisory committees and the extent to which LSSU's programs were accredited.

We assessed the efficiency of LSSU's use of resources by evaluating policies and procedures and analyzing data relating to minimum class sizes; classroom utilization; and faculty utilization, including work loads, overload courses, and release time.

We reviewed financial information for LSSU's four regional centers, located in Alpena, Escanaba, Petoskey, and Traverse City. We also reviewed other information related to the regional centers, such as credit hours, class sizes, and graduation rates. In addition, we determined whether LSSU had evaluated the potential impact on the regional centers of the elimination of the Master of Business Administration (MBA) program, which will be phased out by August 2003.

We determined LSSU's compliance with State and LSSU policies and procedures regarding capital construction and renovation projects in progress from 1998 through the completion of our fieldwork. In addition, we evaluated LSSU's process for competitively bidding capital construction projects. We also evaluated the reasonableness of LSSU's allocation of operating service costs paid by the general fund to the auxiliary activities.

Agency Responses and Prior Audit Follow-Up

Our audit report includes 6 findings and 8 corresponding recommendations. LSSU's preliminary response indicated that it agreed with all of the recommendations.

The agency preliminary response which follows each recommendation in our report was taken from LSSU's written comments and oral discussion 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.

We repeated the one prior audit recommendation that was included within the scope of this audit.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

MONITORING OF ACADEMIC AND RELATED PROGRAMS

COMMENT

Audit Objective: To assess the effectiveness of Lake Superior State University's (LSSU's) monitoring of academic and related programs provided to students.

Conclusion: We concluded that LSSU was generally effective in its monitoring of academic and related programs provided to students. However, we noted reportable conditions related to academic advising and repetitive course enrollments.

Noteworthy Accomplishments: LSSU was first accredited by the Commission on Institutions of Higher Education of the North Central Association of Colleges and Schools in 1946, when it was a branch campus of the Michigan College of Mining and Technology (now Michigan Technological University). LSSU has retained its accreditation without interruption to the present. Also, many of LSSU's academic schools and programs are accredited periodically by various accrediting bodies.

LSSU established a formal academic program review process in October 1999. Each of LSSU's programs is required to be assessed annually. LSSU prepares the assessments to evaluate the programs' effectiveness in meeting LSSU's goals and achieving student success and to facilitate continuous improvement. The academic program review process complements LSSU's annual strategic planning process, which was established in 1994.

FINDING

1. Academic Advising

LSSU had not fully developed a formal academic advising policy and related procedures to help ensure students' academic success.

LSSU views academic advising as critical to the academic success of its students. Providing effective guidance allows students to maximize their educational

opportunities and make informed decisions regarding education, career, and life goals. Under its current practice, LSSU assigns each student to a faculty advisor upon the student's admission to LSSU, based on the student's declared major.

Our review disclosed that LSSU did not:

- a. Develop comprehensive, written academic advising policies and procedures. Only the School of Engineering and Technology (one of LSSU's eight schools) had written academic advising policies. Written policies and procedures would provide both the faculty advisor and the student with the advising requirements and expectations.
- b. Provide formal guidance or training to its faculty advisors. LSSU's academic advising could be more effective if the faculty advisors were provided with sufficient guidance and training to ensure that they addressed student issues and provided them with the direction and opportunities needed to succeed.
- c. Provide critical information directly to faculty advisors, such as when students were placed on probationary or academic dismissal status or when they had repetitively enrolled in the same course (Finding 2). In order for the advisor to obtain this information, the advisor must take the initiative to obtain it from the computerized Student Information System. Providing critical information directly to the faculty advisor would allow the advisor to be more effective and efficient in preparing for and advising students.
- d. Provide oversight of the advising process for faculty advisors assigned to the four colleges and eight schools within LSSU. An oversight function could provide coordination, monitoring, and training of the faculty advisors and promote an overall level of consistency and comprehensiveness in the advising process.

As of fall semester 1999, 424 (13.3%) of the 3,185 students enrolled at LSSU had an academic status of either probation or academic dismissal and, therefore, were exhibiting academic difficulty. Effective academic advising is critical to ensure that these students attain the direction and instruction necessary for their academic success.

LSSU developed an initiative to provide for more comprehensive advising for students. This initiative is being implemented on a test basis during the 2000-01 academic year and is focused on freshman advising. Under the initiative, LSSU will assign each freshman an advisor who is a key faculty or staff member who will provide primary advising services to first-year students. Also, LSSU is in the process of drafting an academic advising handbook for advisors that will detail the responsibilities of the academic advisors. Finally, as a result of the initiative, LSSU is considering developing an administrative position of director of academic advising and assessment, who would be dedicated to coordination of the advising program as well as training of faculty advisors.

RECOMMENDATION

We recommend that LSSU fully develop a formal academic advising policy and related procedures to help ensure students' academic success.

AGENCY PRELIMINARY RESPONSE

LSSU agreed with the recommendation.

LSSU informed us that, during fall semester 2000, it offered nine sections of a one-credit freshman seminar course (UN101) to provide students with information and skills contributing to personal and academic success. One hundred ninety-one students (approximately 30% of the entering class) enrolled in UN101. The instructors for each section will serve as the primary academic advisor to the students in those sections, unless alternative arrangements are initiated by the student or an academic department acting on behalf of the student.

LSSU also informed us that, during fall semester 2000, it developed the position of assistant to the provost for assessment and academic advising, effective January 2, 2001. An initial objective will be to gather comparative data on the academic performance and retention of students enrolled in UN101 to evaluate the initial success of the program and to provide guide steps leading to its improvement.

LSSU further informed us that, during fall semester 2000, the Ad Hoc Committee on Academic Advising, led by the director of the University Learning Center, drafted an academic advising handbook. The assistant to the provost for assessment and academic advising will serve as chair of the Committee. He will

work with the Committee and the materials it has developed to draft, for the provost's consideration during spring semester 2001, a formal policy and procedures for advising that will help ensure students' academic success.

FINDING

2. Repetitive Course Enrollments

LSSU should develop a formal written policy that limits repetitive course enrollments. Also, LSSU should monitor repetitive course enrollments and identify and counsel those students who are not making satisfactory academic progress.

Academic progress is the progression toward completion of course work required for a degree. LSSU states in its current academic policy that students may repeat a class to improve their grade, but it does not establish a limit to repetitive course enrollments.

We analyzed LSSU's summary information of students who had repetitively enrolled in and completed the same course during the period from fall semester 1992 through summer semester 2000. Our analysis disclosed 87 instances (representing 82 students) in which students enrolled in and completed the same course four or more times.

The following table summarizes those courses with more than one student who enrolled and completed the course four or more times and the range of times that the students had enrolled in the course:

<u>Course Title</u>	<u>Number of Students</u>	<u>Range of Times Enrolled</u>
Intermediate Algebra	12	4 - 10
Introductory Algebra III	10	4 - 5
Technical Calculus I	9	4 - 5
College Algebra	8	4 - 5
General Chemistry	6	4
Introductory Algebra II	4	4
Precalculus Mathematics	4	4 - 5
Principles of Accounting I	3	4 - 5
Trigonometry and Vectors	3	4 - 5
Calculus for Engineering II	2	4
Calculus I	2	4 - 5
Pre-Algebra III	2	4

Generally, repetitive course enrollment indicates a lack of academic progress and results in an inefficient use of resources. The establishment of reasonable limitations on repetitive course enrollments would provide LSSU with the opportunity to identify and counsel students who are not progressing satisfactorily. Further, allowing students to repetitively enroll in the same course may result in the inefficient use of State appropriations and LSSU resources because tuition and fees paid by students represent only 29% of total current fund revenues of LSSU. A repetitive course enrollment policy should take into consideration the total cost of providing courses.

RECOMMENDATIONS

We recommend that LSSU develop and implement a formal written policy that limits repetitive course enrollments.

We also recommend that LSSU monitor repetitive course enrollments and identify and counsel those students who are not making satisfactory academic progress.

AGENCY PRELIMINARY RESPONSE

LSSU agreed with the recommendations.

During fall semester 2000, the Provost's Council, comprised of academic deans, the directors of Academic and Student Services, and the vice president of the Faculty Association, reviewed this finding. During spring semester 2001, a formal written academic policy will be drafted, limiting repetitive course enrollments and making provisions for the advising of students who are not making satisfactory academic progress.

USE OF RESOURCES FOR ACADEMIC AND RELATED PROGRAMS

COMMENT

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

Conclusion: We concluded that LSSU was generally effective and efficient in its use of resources allocated to support academic and related programs. However, we noted reportable conditions related to regional center operations, minimum class size, room utilization, and cost allocations to the auxiliary activities fund.

Noteworthy Accomplishments: LSSU reduced tuition by 0.5% for the 2000-01 academic year. The average tuition increase for Michigan's public colleges and universities was just over 3% for the 2000-01 academic year. LSSU is the only public university in Michigan to lower undergraduate tuition in the past 10 years.

FINDING

3. Regional Center Operations

LSSU should reevaluate its degree programs* at its off-campus regional centers to ensure the most efficient use of LSSU resources.

* See glossary at end of report for definition.

LSSU operates four regional centers at northern Michigan community colleges to provide off-campus degree programs to nontraditional students. LSSU has been offering degree programs at Alpena Community College in Alpena since 1986, Bay de Noc Community College in Escanaba since 1988, North Central Michigan College in Petoskey since 1986, and Northwestern Michigan College in Traverse City since 1989. LSSU and the community colleges enter into written agreements that address the programs offered and the services provided to students at these sites.

LSSU offers 6 different undergraduate degree programs and 1 graduate degree program (i.e., Master of Business Administration [MBA] program) through the regional centers. LSSU phasing out its MBA program, which will be terminated as of August 2003. Students remain at the community colleges to obtain their bachelor's degrees, during which time they may also obtain associate's degrees from the community colleges. The regional centers accounted for approximately 3.1% of LSSU's total student credit hours for fiscal year 1999-2000 and 7.2% of its student headcount* for fall semester 1999.

Our analysis of the regional center operations disclosed the following:

- a. Class enrollment levels at the regional centers were considerably lower than those at LSSU's main campus. As described in Finding 4, LSSU uses an informal minimum class size of 10 students. We analyzed class enrollment levels at each of the four regional centers for fall semester 1999 and spring semester 2000 and determined that approximately 18 (47.4%) of 38 of the fall semester 1999 classes and 24 (58.5%) of 41 of the spring semester 2000 classes had fewer than 10 students. Average class sizes at the regional centers were 9.7 and 8.1, respectively, while the main campus had average class sizes of 21.6 and 20.6, respectively.

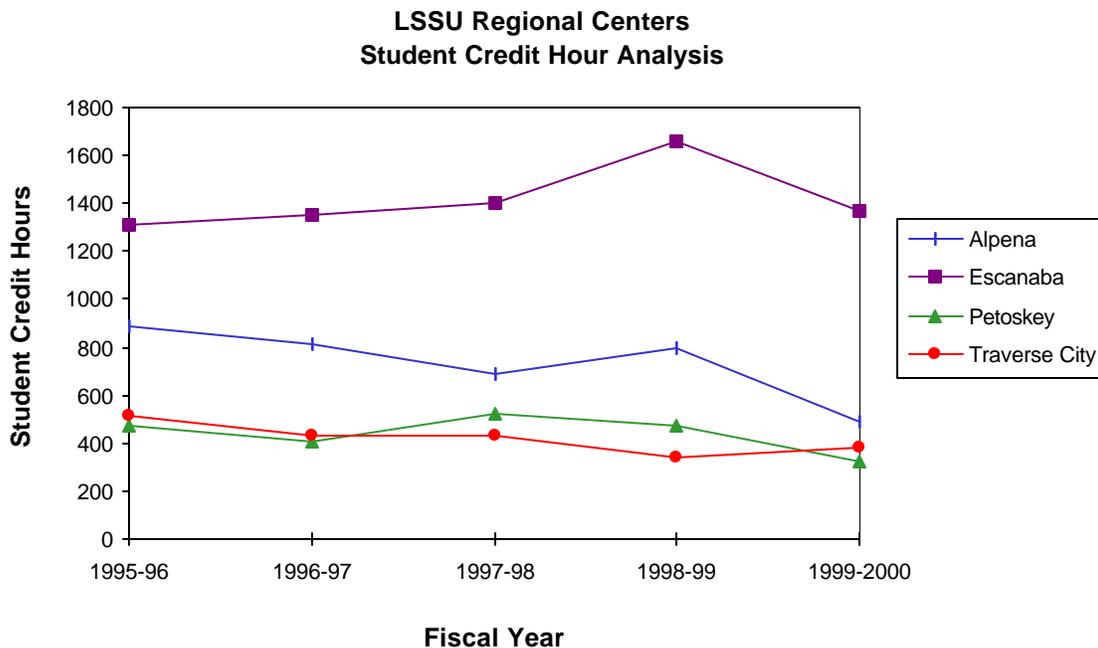
* See glossary at end of report for definition.

The average class sizes at each regional center were as follows:

Regional Center	Average Class Size	
	Fall Semester 1999	Spring Semester 2000
Alpena	9.7	9.4
Escanaba	14.9	12.1
Petoskey	6.1	4.2
Traverse City	6.4	4.6

While average class sizes at Alpena and Escanaba were near or above the informal minimum class size of 10 students, Petoskey and Traverse City experienced average class sizes significantly below the standard level. LSSU may be willing to accept minimum class sizes below the standard established for its main campus, considering the value of its providing degree programs to nontraditional students at regional locations. However, consistently low enrollment levels could be an indication of low demand for degree programs offered by LSSU and increased competition from other universities that offer classes at the regional centers.

- b. Student credit hours at the regional centers have fluctuated, with all of the regional centers experiencing declining levels during the period of our review. We analyzed student credit hour information for the last five completed fiscal years for each of the regional centers:



We also calculated the percentage change in student credit hours for the five-year period and from fiscal year 1998-99 to 1999-2000:

Regional Center	Percentage Change in Student Credit Hours	
	From 1995-96 to 1999-2000	From 1998-99 to 1999-2000
Alpena	(44.4%)	(37.8%)
Escanaba	4.3%	(17.3%)
Petoskey	(30.7%)	(31.4%)
Traverse City	(26.7%)	10.5%
All regional centers	(19.4%)	(21.4%)

LSSU stated that declining enrollments at the community colleges may have had a direct effect on the enrollment levels at the regional centers. However, LSSU needs to evaluate regional center enrollments and identify other causes for declining enrollments and take the most appropriate action for LSSU.

- c. LSSU's regional center in Traverse City is in direct competition with 10 other State universities. According to LSSU policy 2.3.2, "the regional centers are established to provide off-campus degree programs in limited areas" LSSU management informed us that in 1989 it was one of two universities to open a regional center in the Traverse City area. Subsequently, Northwestern Michigan College established a university center* in 1995, facilitating other universities to offer degree programs. LSSU has recognized the trend of other community colleges pursuing the university center concept.

LSSU should evaluate the need and its ability to continue its regional center in Traverse City, given the direct competition of other State universities, and also determine the appropriateness of future involvement in other community college university centers.

- d. Even though LSSU recognized the discontinuance of the MBA program as a "challenge" and an "internal weakness" in its Office of Continuing Education 1999-2000 assessment, it did not determine the potential impact of the discontinuance of the MBA program on its regional center operations.

* See glossary at end of report for definition.

Based on student credit hours for fiscal year 1999-2000, our analysis indicated that the MBA program was a significant part of the total at each of the regional centers:

Regional Center	Student Credit Hours		Percentage
	Total	MBA	
Alpena	493	42	8.5%
Escanaba	1,370	267	19.5%
Petoskey	325	96	29.5%
Traverse City	379	123	32.5%
All regional centers	2,567	528	20.6%

The discontinuance of the MBA program will have a significant impact on the regional center operations. By determining its impact, LSSU could develop and initiate strategies to address the effects of the discontinuance in the best interest of LSSU.

In its evaluation and assessment process of the operations of the regional centers, LSSU should ensure that it is making the most efficient use of its resources. LSSU must also be cognizant of the quality of its degree programs being offered to the students at the regional centers and of its effectiveness in addressing the needs of its students.

We were informed by LSSU management that it has attempted to provide courses to students using alternative instruction techniques, such as interactive television, in an effort to increase enrollment and reduce costs. However, because of the increasing cost of technology, LSSU stated that it cannot continue to offer these types of alternative instruction techniques.

RECOMMENDATION

We recommend that LSSU reevaluate its degree programs at its off-campus regional centers to ensure the most efficient use of LSSU resources.

AGENCY PRELIMINARY RESPONSE

LSSU agreed with the need to ensure the most efficient use of the resources employed at its regional centers and will continue to evaluate the programs offered at those sites.

The director of Continuing Education monitors and oversees regional center operations, including graduate programs offered through regional centers. The director of Continuing Education reports in detail on regional center operations on a regular basis, in joint meetings with both the provost and the president. This practice has been in place since 1977. These thorough reviews have focused on fiscal as well as academic issues and resulted in a 1999 decision to restructure the administration and staffing patterns of regional centers, especially Petosky and Traverse City. LSSU informed us that, during fall semester 2000, the director of the Petosky and Traverse City regional centers made further recommendations for the consolidation of operations. These recommendations were reviewed by the Student and Academic Affairs Subcommittee of the LSSU Board of Trustees. Additional review will be undertaken by the LSSU Board of Trustees in 2001. LSSU also informed us that, during summer semester 2000 and fall semester 2000, the provost made personal visits to the regional centers in Alpena and Escanaba. He met with center directors and senior academic administrators at Alpena and Bay de Noc Community Colleges to further review joint academic operations at those locations.

FINDING

4. Minimum Class Size

LSSU did not maintain documentation to support its informal minimum class size standard. Also, LSSU should establish a formal policy addressing the minimum class size, including documentation and approval requirements, when it is necessary to hold low enrollment classes.

LSSU informed us that it uses an informal minimum class size of 10 students. However, LSSU could not provide any support or justification for this minimum class size standard. LSSU used an informal monitoring process in which the academic deans and the provost reviewed enrollment levels prior to the start of classes each semester and determined whether to hold or cancel classes.

We analyzed low enrollment classes (9 students or fewer) for fall semester 1999 and spring semester 2000. We excluded all classes that were not applicable to our analysis, including independent studies and internships:

	Spring Semester 2000	Fall Semester 1999
Total number of classes	721	775
Total number of low enrollment classes	170	125
Percentage of classes held with low enrollment	23.6%	16.1%

We were informed that there were various reasons for holding these low enrollment classes. These reasons included the class was required for graduation, the class was offered only once a year, or the class was for a program that was being phased out. However, LSSU did not maintain documentation to support holding the low enrollment classes.

In some instances during the informal monitoring process, LSSU prorated a faculty member's compensation (with the faculty member's consent) for a low enrollment class if the class was being taught as an overload class. Of the 295 low enrollment classes in our analysis, 38 (12.9%) were classes for which LSSU prorated the faculty member's compensation. We recognize this proration process as an effective method for ensuring efficient use of LSSU's resources. However, without a reliable, documented minimum class size standard, LSSU cannot be sure that its faculty are receiving equitable compensation for the classes they teach on a prorated basis.

The establishment of a minimum class size policy would provide LSSU management with the opportunity to identify an acceptable minimum enrollment level for classes, identify conditions for offering a class with enrollment below that minimum level, and require that approval of any deviations be documented. Conducting an analysis of the appropriate minimum class size and establishing a policy would help ensure that LSSU is efficiently using its resources.

RECOMMENDATIONS

We recommend that LSSU perform an analysis to determine an acceptable minimum class size standard and maintain documentation to support the standard.

We also recommend that LSSU establish a formal policy addressing the minimum class size, including documentation and approval requirements, when it is necessary to hold low enrollment classes.

AGENCY PRELIMINARY RESPONSE

LSSU agreed with the recommendations.

LSSU informed us that, following the visit of the Office of the Auditor General, additional research by the secretary to the LSSU Board of Trustees yielded documentation dating to 1979 that is the historical foundation for a minimum class size of 10. The fall semester 2000 analysis by the Office of Institutional Research for academic year 1999-2000 provides contemporary, empirical justification for the maintenance of this minimum. LSSU believes that a class size of 10 students is its breakeven point when it considers all relevant revenues and expenditures associated with classes conducted at LSSU.

LSSU will establish a formal policy addressing the minimum class size, including documentation and approval requirements, when it is necessary to hold low enrollment classes.

FINDING

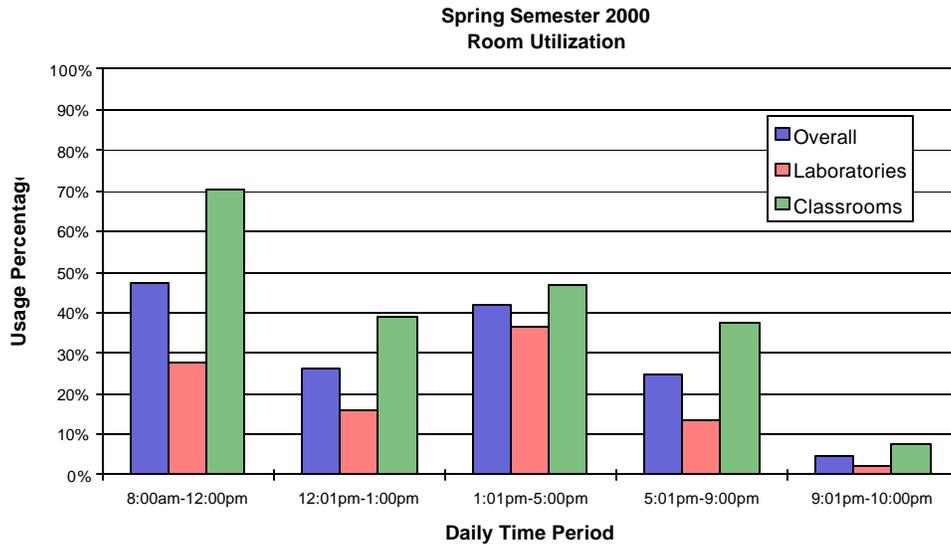
5. Room Utilization

LSSU should regularly assess room utilization.

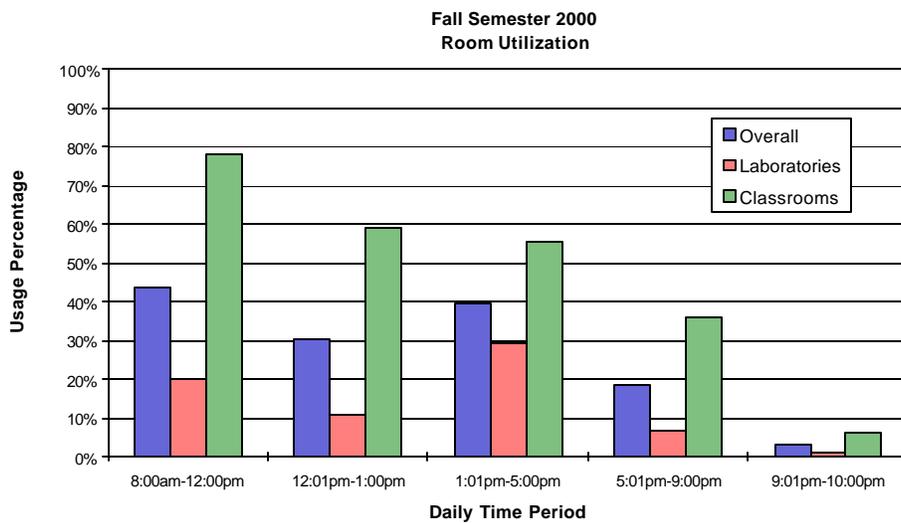
Each of LSSU's four colleges is responsible for determining which classes it will offer each semester. When the colleges have determined class schedules, the LSSU Registrar's Office uses a software package to assign classes to rooms. This software generates the room assignment lists, which LSSU administration uses for monitoring purposes. This software can also be used to generate reports that allow LSSU administration to regularly assess room utilization. However, LSSU had not used these software capabilities because it did not have a computer programmer to generate the necessary reports.

We obtained the lists of room assignments for spring semester 2000 and fall semester 2000 to analyze room utilization. LSSU utilized a total of 41 labs and 34 classrooms during spring semester 2000 and 52 labs and 35 classrooms during fall

semester 2000. Using these lists, we calculated the percentage of time that rooms were used at different time periods of the day:



1



Regular assessment of room utilization is essential to ensure that LSSU is making the most efficient use of resources and to provide a basis for scheduling classes and making future classroom decisions, including the construction of new classroom buildings or the renovation of existing classroom buildings.

RECOMMENDATION

We recommend that LSSU regularly assess room utilization.

AGENCY PRELIMINARY RESPONSE

LSSU agreed with the recommendation. LSSU will emplace resources for the assessment of this management parameter.

FINDING

6. Cost Allocations to the Auxiliary Activities Fund

LSSU did not allocate an appropriate portion of indirect institutional support costs to the auxiliary activities fund.

An auxiliary activity is an entity that exists to furnish goods or services to students, faculty, or staff and that charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. The general public may be served incidentally by some auxiliary activities. Auxiliary activities may include residence halls, food services, intercollegiate athletics, college stores, and parking.

The American Institute of Certified Public Accountants Industry Audit Guide entitled *Audits of Colleges and Universities* requires that expenditures of the auxiliary activities fund include all costs relating to the operations of the auxiliary activities, including expenditures for the operation and maintenance of plant and for institutional support, such as executive and administrative offices that serve the whole institution. These expenditures can be charged directly or allocated as a proportionate share of costs of other departments or units.

During fiscal years 1999-2000 and 1998-99, LSSU reported approximately \$9.2 million and \$8.8 million, respectively, in expenditures for the auxiliary activities fund. Although LSSU included some institutional support costs, it did not allocate all indirect institutional support costs. Based on estimates provided to us by various LSSU personnel, we determined that additional institutional support costs

of approximately \$883,000 (9.6%) and \$819,000 (9.3%) for fiscal years 1999-2000 and 1998-99, respectively, should have been charged to the auxiliary activities fund. These indirect costs were all paid by LSSU's general fund.

Auxiliary activities are, by definition, substantially self-supporting. Without an appropriate allocation of all institutional support costs to the auxiliary activities fund, LSSU understates the expenditures of those activities.

RECOMMENDATION

WE AGAIN RECOMMEND THAT LSSU ALLOCATE AN APPROPRIATE PORTION OF INDIRECT INSTITUTIONAL SUPPORT COSTS TO THE AUXILIARY ACTIVITIES FUND.

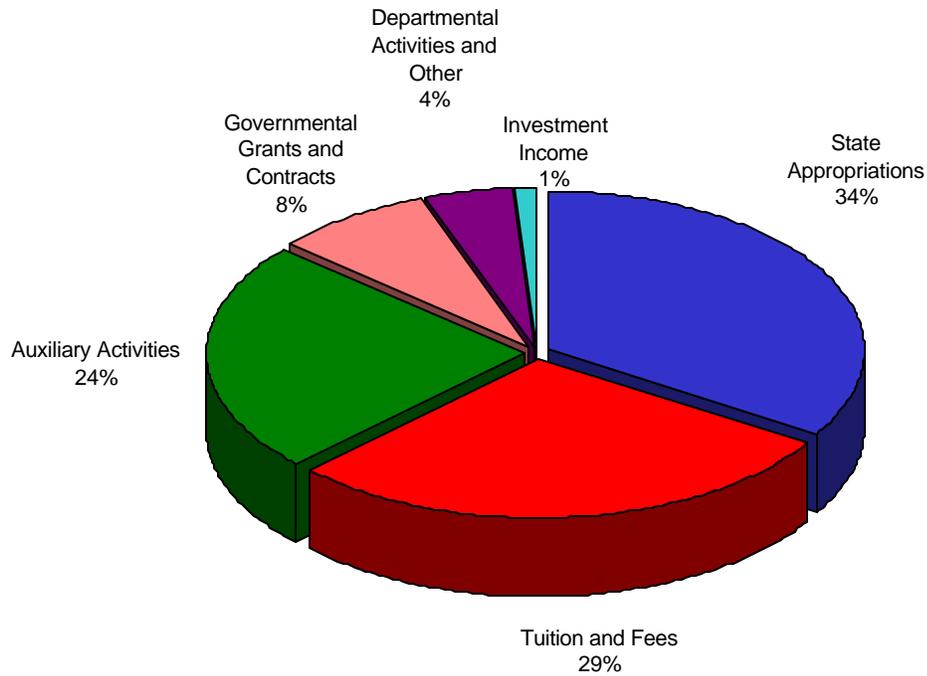
AGENCY PRELIMINARY RESPONSE

LSSU agreed with the recommendation but disagreed with the level of institutional support dollars that the Office of the Auditor General estimated in the finding. LSSU believes that the amount that should be charged to the auxiliary activities fund approximates 50% of the amount cited by the Office of the Auditor General.

A similar analysis of the services provided to the general fund by the auxiliary activities fund without any commensurate chargeback should be factored into this analysis. Many activities are held in the Cisler Center with only the direct cost of food being charged to the general fund. Rental fees, setup costs, and administrative overhead costs are absorbed by the auxiliary activities fund.

SUPPLEMENTAL INFORMATION

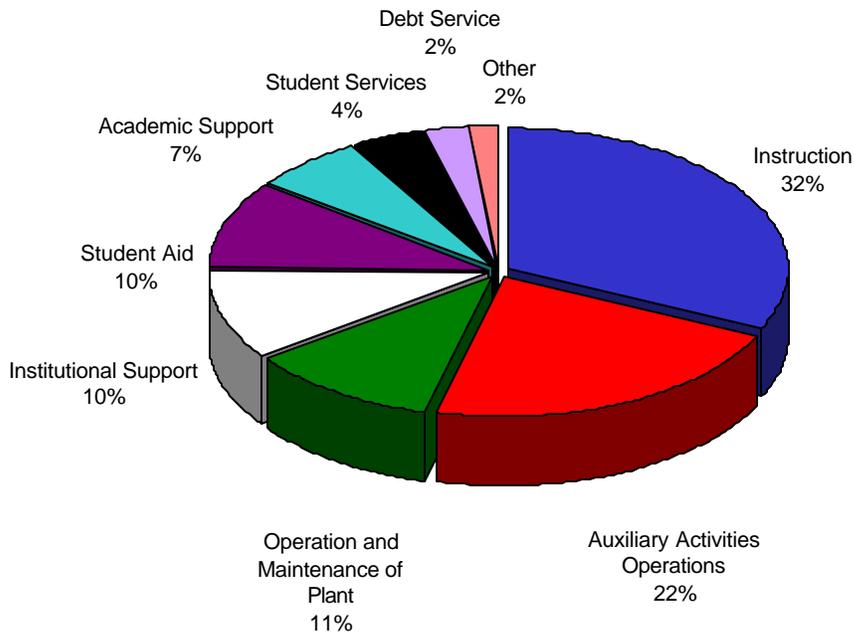
LAKE SUPERIOR STATE UNIVERSITY
Current Fund Revenues
For Fiscal Year 1999-2000



	<u>Amount</u>
State appropriations	\$ 13,356,928
Tuition and fees	11,406,975
Auxiliary activities	9,371,365
Governmental grants and contracts	3,140,947
Departmental activities and other	1,701,223
Investment income	483,158
Total Revenues	<u>\$ 39,460,596</u>

Source: Lake Superior State University financial statements.

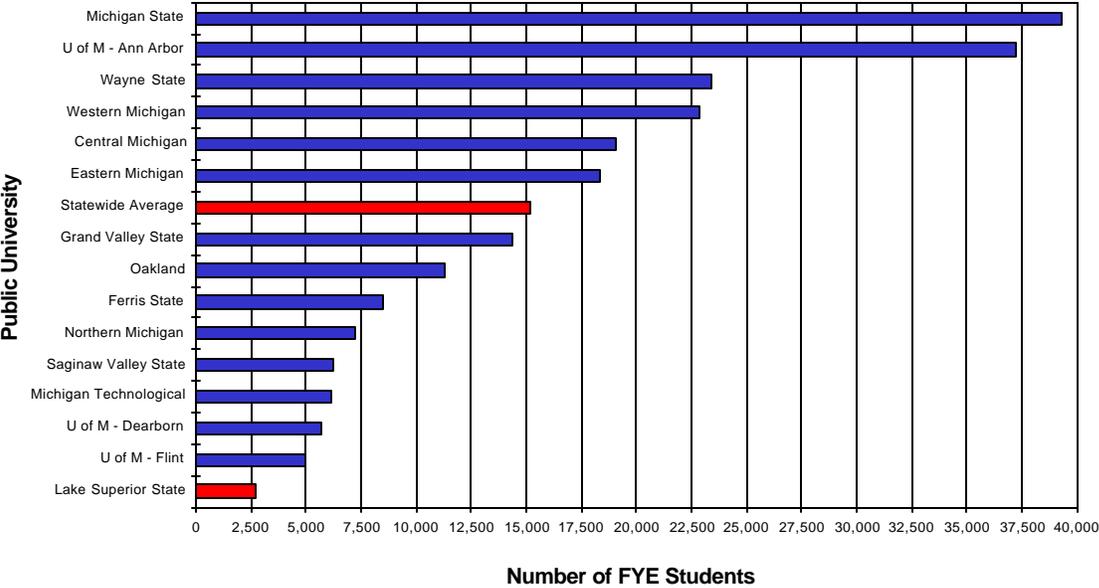
LAKE SUPERIOR STATE UNIVERSITY
Current Fund Expenditures and Transfers
For Fiscal Year 1999-2000



	<u>Amount</u>
Instruction	\$ 13,333,581
Auxiliary activities operations	9,197,599
Operation and maintenance of plant	4,640,418
Institutional support	4,293,321
Student aid	4,210,643
Academic support	2,701,161
Student services	1,742,806
Debt service	964,285
Other	753,361
Total Expenditures and Transfers	<u>\$ 41,837,175</u>

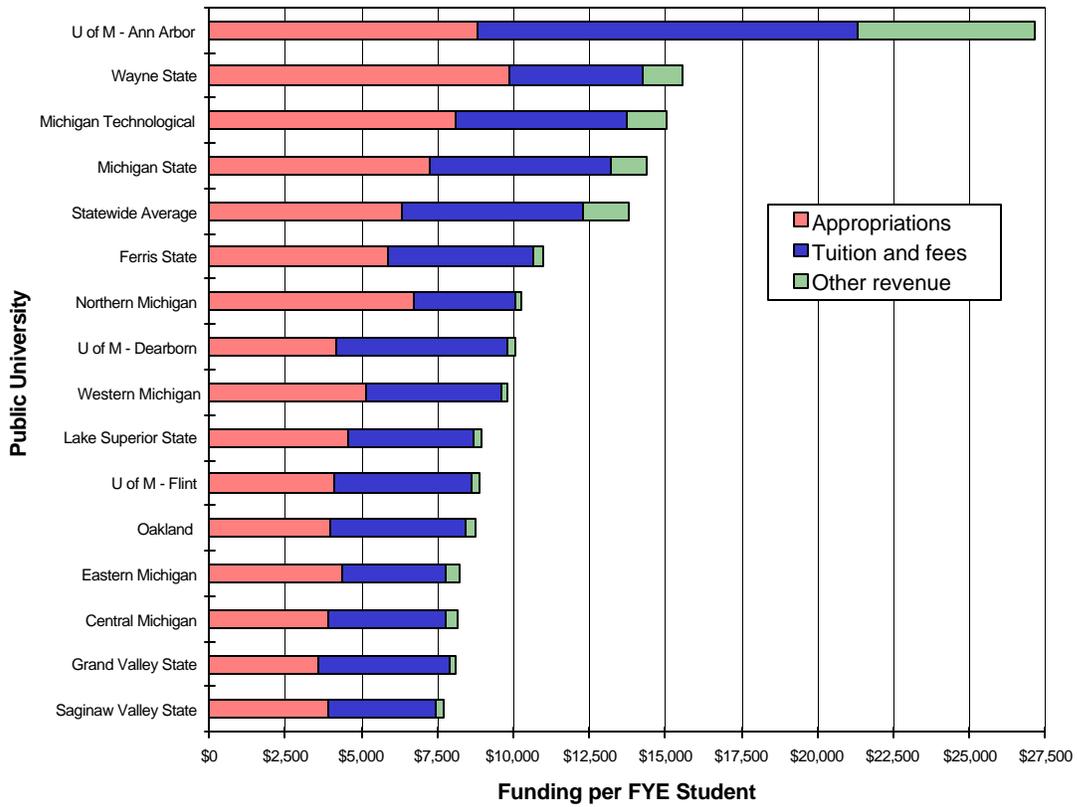
Source: Lake Superior State University financial statements.

LAKE SUPERIOR STATE UNIVERSITY
Statewide Projected Enrollment by Public University
For Fiscal Year 1999-2000



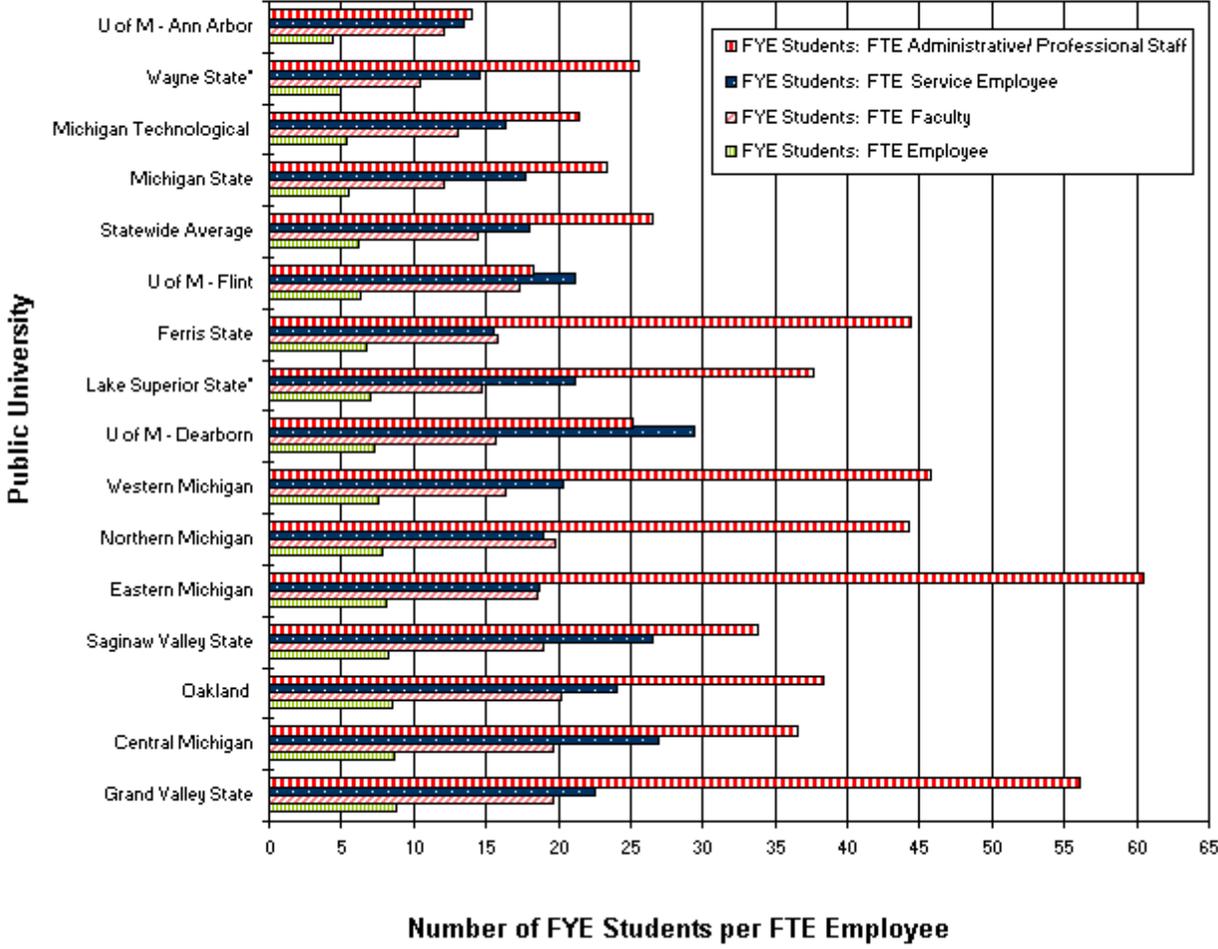
Source: Presidents Council, State Universities of Michigan.

LAKE SUPERIOR STATE UNIVERSITY
Per Student Funding From General Fund Sources by Public University
For Fiscal Year 1998-99



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

LAKE SUPERIOR STATE UNIVERSITY
Number of Students per Employee by Public University
For Fiscal Year 1998-99



* Fiscal year 1997-98. Data for fiscal year 1998-99 was not available.

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.
contract hour	One class hour of lecture or recitation at the undergraduate level, 1.5 hours of laboratory instruction at the undergraduate level, or 0.75 hour of classroom instruction at the graduate level.
degree programs	Any of the 63 undergraduate or 1 graduate academic programs offered by LSSU.
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.
fiscal year equated (FYE)	In fiscal year 1999-2000, 30 undergraduate semester credit hours, based on a new State reporting requirement. In prior fiscal years, 31 semester credit hours.
FTE	full-time equated.
headcount	The actual number of students, regardless of the number of credit hours they enrolled in.
LSSU	Lake Superior State University.
MBA	Master of Business Administration.
minimum class size	The lowest number of students that may enroll in a section of a course without the section being canceled.

mission	The agency's main purpose or the reason the agency was established.
overload	Additional contract hours assigned to a faculty member beyond the faculty member's normal work load. The normal work load required for full-time faculty is 24 contract hours per academic year.
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.
regional center	A site at one of four community colleges where LSSU provides off-campus degree programs to nontraditional students.
repetitive course enrollment	To enroll in a subsequent semester in the same course that a student previously has 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.
room utilization	The proportion of time that classrooms and laboratories are utilized for class sessions during regularly scheduled class times.
university center	A center, usually established by a community college, where universities offer junior or senior level classes to students.
U of M	University of Michigan.