

PERFORMANCE AUDIT
OF
WAYNE STATE UNIVERSITY

February 2004

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan Office of the Auditor General REPORT SUMMARY

Performance Audit

Wayne State University

Report Number:
33-230-02

Released:
February 2004

Wayne State University is a national research university with an urban teaching and service mission. It has been designated as a Carnegie Research Extensive University since 1994 and has been accredited in whole by the North Central Association of Colleges and Schools since 1956. Wayne State University offers its various programs through its 13 colleges and schools and numerous centers and institutes.

Audit Objectives:

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

1. The University was generally effective in its monitoring of its research program and academic and related programs provided to students.
 2. The University was generally effective and efficient in its use of resources allocated to research and support of academic and related programs.
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Reportable Conditions:

The University did not have a University-wide policy addressing repetitive course enrollments and excessive marks of "X" (insufficient work) and "W" (official withdrawal) and their impact on undergraduate student academic progress and efficient use of resources. Also, the University generally did not monitor repetitive enrollments and excessive marks of "X" and "W" and identify and counsel those undergraduate students found not to be making satisfactory academic progress (Finding 1).

The University needs to update its general education (GE) competency requirements and the courses and examinations used for satisfying these requirements (Finding 2).

The University needs to establish controls to ensure that undergraduate students satisfy GE competency requirements within established time frames (Finding 3).

The University should periodically evaluate the effectiveness of its Division of Community Education (DCE) Program (Finding 4).

DCE Program administrators should implement appropriate measures to improve selected aspects of the DCE Program (Finding 5).

The University needs to improve selected aspects of its intellectual property management practices (Finding 6).

The University's Office of Admissions needs to implement measures to improve the timeliness of its transfer credit evaluation process (Finding 7).

The University needs to ensure tuition parity between its resident and nonresident students (Finding 8).

The University needs to reduce its deferred maintenance backlog (Finding 9).

The University should modify its grading policy relative to its marks of "I" (incomplete) and "X" (insufficient work) (Finding 10).

The University had not established an effective control for enforcing course-based prerequisites (Finding 11).

The University needs to strengthen its controls for granting exceptions to its tuition and fee assessment and enrollment policies (Finding 12).

The University should regularly monitor and assess its classroom utilization (Finding 13).

The University did not obtain Joint Capital Outlay Subcommittee approval for non-State-funded capital outlay projects exceeding \$1 million before proceeding with capital outlay construction (Finding 14).

The University did not allocate any indirect costs to its auxiliary activities (Finding 15).

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Agency Response:

Our audit report contains 15 findings and 16 corresponding recommendations. The University's preliminary response indicated that it agreed with 11 recommendations, partially agreed with 4 recommendations, and disagreed with 1 recommendation.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at:
www.state.mi.us/audgen/



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AUDITOR GENERAL

February 25, 2004

Mr. Paul E. Massaron, Chair
Board of Governors
and
Mr. Irvin D. Reid, President
Wayne State University
Detroit, Michigan

Dear Mr. Massaron and Mr. Reid:

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

This report contains our report summary; 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 Wayne State University's responses subsequent to our audit fieldwork. Annual appropriations acts require that the audited agency 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

Wayne State University began as a group of unrelated colleges and schools united by the Detroit Board of Education in 1933 and called the Colleges of the City of Detroit. In 1934, the Colleges of the City of Detroit was renamed Wayne University. Act 183, P.A. 1956, then established Wayne University as a State institution of higher education and correspondingly renamed it Wayne State University. Article 8, Section 5 of the State Constitution provides for oversight of the University by an eight-member Board of Governors elected by the people of the State of Michigan for eight-year terms.

As of October 2002, the University delivered its various programs in 104 buildings that it owned and operated and 15 additional leased buildings. The University owns approximately 210 acres of land that is spread over its main campus, adjacent athletic and medical campuses, and extension centers.

The University is a national research university with an urban teaching and service mission*. As a national research university, Wayne State University is committed to high standards in research and scholarship. As an urban teaching university, Wayne State University seeks especially to serve residents of the greater Detroit metropolitan area, although it enrolls students from across the State and nation as well as foreign lands. It makes available high quality educational programs in more than 600 fields of study or concentration leading to more than 300 different degrees at the bachelor's, master's, and doctoral levels. Wayne State University strives to serve the disciplines and professions represented among its academic programs as well as public and private sector organizations and associations at local, state, and national levels.

Wayne State University offers its various programs through its 13 colleges and schools and numerous centers and institutes. Its colleges and schools include the College of Education; College of Engineering; College of Fine, Performing and Communication Arts; College of Liberal Arts; College of Nursing; College of Pharmacy and Allied Health Professions; College of Science; College of Urban, Labor, and Metropolitan Affairs; School of Business Administration; School of Medicine; School of Social Work; Graduate School; and Law School. During winter semester 2002, the University enrolled 29,373 students. The University had 23,754 fiscal year equated* students during fiscal year 2001-02.

* See glossary at end of report for definition.

The North Central Association of Colleges and Schools has accredited the University as a whole since its inception in 1956. In addition, more than 40 specific programs and curricula are individually accredited by specialized or professional accrediting agencies. Also, the University has been designated as a Carnegie Research Extensive University since 1994.

As of March 31, 2003, the University had 1,635 full-time and 1,101 part-time faculty members; 1,050 research staff; and 2,527 administrative and support staff. For the fiscal year ended September 30, 2002, the University had revenues and expenses totaling \$659.1 million and \$674.3 million, respectively.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance audit* of Wayne State University had the following objectives:

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

Audit Scope

Our audit scope was to examine the program and other records of Wayne 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) 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.

Audit Methodology

Our audit procedures, performed from April 2002 through March 2003, included examinations of the University's records and activities primarily for the period September 1, 1999 through March 31, 2003.

We conducted a preliminary review of the University's operations to formulate a basis for defining the audit scope. This included interviewing University personnel, reviewing applicable policies and procedures, analyzing available data and statistics, reviewing reference materials, and obtaining an understanding of the University's management control* and operational, research, and academic activities.

* See glossary at end of report for definition.

We evaluated the University's general and special admissions policies and procedures, placement testing, transfer credit evaluation, and academic advising. Also, we assessed compliance with the University's residency and tuition and fee assessment and collection policies and procedures. In addition, we reviewed and assessed compliance with the University's policies and procedures relating to academic progress*, including course-based prerequisites and grading. Further, we assessed the effectiveness of the University's Division of Community Education (DCE) Program. Also, we examined the University's methods for ensuring the quality of its academic programs, including the use of program evaluations. In addition, we determined the extent to which the University's academic programs were accredited.

We assessed the efficiency of the University's use of resources by analyzing data related to minimum class enrollment*; repetitive course enrollment*; classroom utilization*; faculty utilization; and extension centers. Also, we evaluated the University's methods for ensuring the verbal communication skills of its teaching faculty.

We determined the University's compliance with selected State and University policies and procedures related to State-funded and non-State-funded capital construction, renovation, and maintenance projects along with other boilerplate requirements. Also, we assessed the University's efforts at addressing its deferred maintenance needs. In addition, we reviewed the University's practices for allocating indirect costs to auxiliary activities. Further, we assessed the University's intellectual property* management activities.

Agency Responses

Our audit report contains 15 findings and 16 corresponding recommendations. The University's preliminary response indicated that it agreed with 11 recommendations, partially agreed with 4 recommendations, and disagreed with 1 recommendation.

The agency preliminary response that follows each recommendation in our report was taken from the University'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 State budget director. 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.

* See glossary at end of report for definition.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

MONITORING OF RESEARCH PROGRAM AND ACADEMIC AND RELATED PROGRAMS

COMMENT

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

Conclusion: We concluded that the University was generally effective in its monitoring of its research program and academic and related programs provided to students. However, we noted reportable conditions* related to repetitive course enrollment, General Education (GE) Program, GE competency requirements, evaluation of the Division of Community Education (DCE) Program, DCE Program administration, intellectual property management, and transfer credit evaluation (Findings 1 through 7).

FINDING

1. Repetitive Course Enrollment

The University did not have a University-wide policy addressing repetitive course enrollments and excessive marks of "X" (insufficient work) and "W" (official withdrawal) and their impact on undergraduate student academic progress and efficient use of resources. Also, the University generally did not monitor repetitive enrollments and excessive marks of "X" and "W" and identify and counsel those undergraduate students found not to be making satisfactory academic progress.

Generally, repetitive enrollment and excessive marks of "X" and "W" indicate a lack of academic progress and result in an inefficient use of resources. Academic progress is the progression toward completion of coursework required for a degree. Because the tuition paid by students represents only a portion of the total costs of enrolling in a course, allowing students to repetitively enroll in the same course and to receive an excessive number of marks of "X" and "W" is an inefficient use of State and University resources.

* See glossary at end of report for definition.

We analyzed the repetitive enrollments of students enrolled in undergraduate courses (courses numbered less than 6000 and excluding certain specialized courses) during fall semester 1999 through winter semester 2002. Our analysis disclosed 2,178 instances (representing 1,567 students) of students who repeated the same course or courses three or more times. To provide us with a more complete picture of repetitive enrollment at the University, we reviewed the entire academic history of 26 of these students and noted:

- a. Seven (26.9%) of 26 students had a total of 34 additional enrollments in the courses that they had repeated at least three times during fall semester 1999 through winter semester 2002. Also, these students repeated a total of 29 other courses three or more times prior to fall semester 1999.
- b. As of the end of winter semester 2002, the 26 students had repeated 114 courses a total of 502 times. One student had repeated 11 courses between 3 and 15 times.
- c. As of the end of winter semester 2002, the 26 students had attempted a total of 3,924 credit hours of courses, but earned (having received a grade of D- or better or a mark of S [satisfactory]) only 1,703 (43.4%) credit hours.
- d. The 26 students attended a total of 5 different colleges within the University; however, only 1 (20.0%) of the 5 colleges monitored student repetitive enrollment and one of the colleges consistently monitored excessive marks of "X" and "W."

We also analyzed the grade distribution for registered undergraduate students for fall semester 1999 through winter semester 2002. Our analysis disclosed that instructors assigned these students 20,957 and 18,778 marks of "X" and "W," respectively. This represented a total of 11.0% of all grades/marks assigned during this time period.

The establishment of reasonable limitations on repetitive enrollments and the number of marks of "X" and "W" that a student may receive would provide the University with the opportunity to identify and counsel students who are not progressing satisfactorily.

RECOMMENDATIONS

We recommend that the University develop a University-wide policy addressing repetitive course enrollments and excessive marks of "X" and "W" and their impact on undergraduate student academic progress and efficient use of resources.

We also recommend that the University monitor repetitive enrollments and excessive marks of "X" and "W" and identify and counsel those undergraduate students found not to be making satisfactory academic progress.

AGENCY PRELIMINARY RESPONSE

The University partially agrees with the recommendations.

University level policies do not address the number of times an undergraduate course may be repeated or define what constitutes adequate progress toward degree completion; instead, those policy decisions are made at the college/school level. Given the commuter, part-time, nontraditional nature of the University's student body, the definition of what constitutes reasonable progress toward degree completion, policies on the number of repeat courses, as well as the administration and monitoring of such policies, vary according to the nature of the major or program and the academic regulations of the colleges/schools.

Students are counseled when they are not achieving academic standards. The University's Undergraduate Academic Probation Policy sets the minimum grade point average (GPA) students must achieve to stay enrolled. Each college/school may establish standards that are more stringent for probation and exclusion. At the university level, students have two terms to remain on probationary status before exclusion. College/school policies may dictate fewer terms or require that certain conditions be met for the student to be reinstated.

The academic issues of repeats or repetitive enrollments are complex. Students' motives for repeating courses vary. In some instances, courses are repeated because the student wishes to improve a passing grade or has not reached the level of competence or the minimum grade necessary to proceed in a curriculum, while others repeat courses that are gateways to certain programs.

Based on the finding, the University will review its policy relative to repetitive enrollment and make appropriate changes if it is determined they are necessary.

FINDING

2. General Education (GE) Program

The University needs to update its GE competency requirements and the courses and examinations used for satisfying these requirements.

The GE competency requirements and courses used to satisfy them must be updated quickly to ensure that current students attain the necessary fundamental skills that will allow them to succeed in college and to function as educated citizens.

The University's GE Program requires undergraduate students to demonstrate competency in mathematics, written and oral communication, computer literacy, and critical thinking. Students demonstrate competency in these areas through a variety of means, including satisfactory performance on placement, proficiency, screening, or competency examinations; satisfactory completion of specified high school courses; or satisfactory completion of designated University courses or their equivalents from other institutions of higher education.

In June 2000, a committee appointed by the Provost reviewed the GE Program and reported significant deficiencies in the mathematics, computer literacy, and critical thinking competency areas. These deficiencies included the competency requirements and the acceptable ways to satisfy them. For example, the committee reported that the competency requirements for computer literacy, which were written in the early 1980's, ". . . are woefully outdated and need to be modernized immediately. It is also clear these requirements should have been changed prior to this report." Further, the committee reported that at least 6 (50.0%) of the 12 applicable courses used for satisfying the competency requirement were not appropriate for this purpose.

In a November 2000 memorandum, the University's Provost called for the creation of requirement-specific committees to review the definitions and guidelines of the competency requirements to determine their adequacy and to recommend needed changes. Also, the Provost stated that if the appropriate academic bodies approved the recommended changes, the existing General Education Implementation Committee (GEIC) would review the courses used for satisfying the new requirements to determine compliance with them. Further, the Provost stated that "there is a particular urgency to review the competency requirements,

especially the Mathematics, Computer Literacy and Critical Thinking Competency requirements, so that the new guidelines can be put into place by Fall 2001."

As of March 2002, the University had not made any changes to the competency requirements or the designated courses used to satisfy them. However, at that time, the Provost appointed a new committee to review the entire GE Program and, concurrently, requested that GEIC review the aforementioned June 2000 report and recommend by April 1, 2002 the interim changes that should be made to the current competencies and the courses used to satisfy them. As of January 15, 2003, GEIC had not met to address these concerns.

The University's failure to make the needed changes to its GE competency requirements in a timely manner appears to be due, in part, to the complexity of its faculty academic governance structure, which needs to agree to any such changes.

RECOMMENDATION

We recommend that the University update its GE competency requirements and the courses and examinations used for satisfying these requirements.

AGENCY PRELIMINARY RESPONSE

The University partially agrees with the recommendation.

The University agrees that it is important to periodically monitor, assess, and, as necessary, update these requirements. However, because the Provost did not accept several of the June 2000 report recommendations referred to in the finding, revisions in the University's GE Program are still under discussion by the faculty.

The goals, objectives, and components of general education reflect the educational philosophy and mission of the University. Accordingly, decisions about revisions in the Program must be considered through the normal faculty academic governance procedures, including approval by the Academic Senate. Several faculty committees must provide advice before changes are made. This due process is often time consuming.

Notwithstanding, GEIC recommendations for revisions in the computer literacy competency requirement were forwarded to the Academic Senate and will be

reviewed during fall semester 2003. Agreement was not reached about the revisions in the mathematics competency requirement and that discussion will continue during fiscal year 2003-04.

FINDING

3. GE Competency Requirements

The University needs to establish controls to ensure that undergraduate students satisfy GE competency requirements within established time frames.

The University believes that command of fundamental skills in mathematics, written and oral communication, computer literacy, and critical thinking is a precondition for academic success. As such, the University requires students to satisfy the GE competency requirement in mathematics by the time they earn 30 credit hours and the other four competencies by the time they earn 60 credit hours.

According to the *University Undergraduate Bulletin*, students who have not satisfied their GE competency requirements within 60 credit hours will be allowed two additional semesters (or their equivalent) to actively pursue and satisfy their remaining competency requirements. In addition, students who have not satisfied all of their competency requirements within 90 credit hours will be barred from enrolling in courses other than those that satisfy their competency requirements. The Office of the Provost informed us that the University enforced the competency requirements by placing registration holds on students who had not satisfied their competency requirements by the established deadlines; however, our review disclosed that the University had discontinued this practice in 1998 and had not established any alternative controls.

We reviewed the academic records of 8 first time in any college (FTIAC) students and 8 transfer students with fewer than 60 transfer credits to determine if the students had satisfied their GE competency requirements within the established time frames. Our review disclosed that none of the 8 FTIACs had fully satisfied their competency requirements by the time they had earned 60 credit hours. In addition, only 2 (33.3%) of the 6 applicable FTIACs and 1 (12.5%) of the 8 transfer students had fully satisfied their competency requirements by the time they had earned 90 credit hours.

As alluded to previously, early command of the fundamental skills required in the competency areas underlie and make possible the acquisition of knowledge and, therefore, are needed for students' initial and continued academic success.

RECOMMENDATION

We recommend that the University establish controls to ensure that undergraduate students satisfy GE competency requirements within established time frames.

AGENCY PRELIMINARY RESPONSE

The University agrees with the recommendation.

This represents a temporary issue resulting from the transition between several student information systems (SISs) during the past six years. As the University further develops the features of the current system, which was implemented during 2003, a process will be developed to put electronic notices on academic records for satisfaction of GE competencies. In the interim, an alternative electronic student tracking system was developed which provides advisors with information needed to track completion of the requirements. Various "look-up" screens in the new SIS and Student Accounts Receivable System were developed which provide information on the status of completion of GE requirements. In addition, students were urged to visit their advisors and to get a graduation audit to determine outstanding requirements.

With the implementation of the new SIS and the introduction of "University Pipeline," the University has new capabilities. Students now can access their records electronically and can view their academic record at any time. Included with that functionality is the ability to review the GE requirements completed and the outstanding requirements.

FINDING

4. Evaluation of the Division of Community Education (DCE) Program

The University should periodically evaluate the effectiveness of its DCE Program.

The University established the DCE Program in 1969 to provide access to bachelor's degree programs for individuals not meeting the University's general admission requirements. For the 10-year period ended fall semester 2001,

approximately 4,250 new students had entered the DCE Program. The mission of the Program is to strengthen and enhance the foundational skills of students to enable them to successfully complete their prescribed course of study and ultimately graduate from the University. In support of its mission, the University has established major program goals related to, among other things, student retention and program completion. However, the University has not conducted any meaningful review of the effectiveness of the DCE Program in achieving its mission or major program goals. Consequently, to provide us with some measure of the effectiveness of the Program, we calculated and reviewed student retention, program completion, and graduation rates for 125 students admitted to the DCE Program during the five-year period ended fall semester 1998 (25 from each year).

Traditionally, student retention is calculated as the percentage of FTIACs and/or new transfer students enrolled during a given fall semester that re-enroll the following fall semester. However, because DCE Program administrators informed us that DCE students tend to "stop out" and later re-enroll, we calculated student retention as the percentage of students who re-enrolled for a second and third semester at any time through fall semester 2002. Using this methodology, our calculated two-semester and three-semester retention rates were 60.8% and 42.4%, respectively. In regard to program completion and graduation, we determined that only 25 (20.0%) of the 125 students reviewed had successfully completed the DCE Program and only 3 (2.4%) had earned a bachelor's degree as of the end of fall semester 2002. For the 75 students in our review who had started in the DCE Program at least 6 years prior to our review, the maximum six-year graduation rate, a commonly used academic outcome measure, was only 4.0% (3 of the 75 students).

The University calculated its University-wide retention rates for all FTIACs who entered the University during fall semesters 1994 and 2000 at 87% and 89%, respectively. The University-wide rates are more than double our calculated three-semester retention rate for the DCE Program. In addition, the University-wide 6-year graduation rate for its 1994 and 1995 freshman classes was 39% and 41%, respectively. Those University-wide rates are approximately ten times greater than our calculated rate for the DCE Program.

While these comparisons do not account for known and unknown variables in rate calculation methodologies and student populations, they strongly suggest that the Program may have limited effectiveness. Periodic evaluations of the DCE Program

would help to identify program weaknesses and provide the basis for change aimed at improving student outcomes.

RECOMMENDATION

We recommend that the University periodically evaluate the effectiveness of its DCE Program.

AGENCY PRELIMINARY RESPONSE

The University agrees with the recommendation.

As with similar programs offered at other urban institutions, DCE offers motivated but under-prepared students the opportunity to acquire the skills needed to succeed in college. The Program has many graduates who today hold leadership positions in business and government and credit DCE for their success. Assessment plans for programs such as DCE must focus on program mission and institutional priorities. The tendency is to compare DCE retention and graduation rates to those of the general student population. Doing so works against DCE's mission to provide opportunities to members of the community who traditionally have not had such opportunity. The appropriate benchmarks for DCE look at programs with similar missions and populations. When this is done, DCE's retention rate compares very favorably to similar programs at other institutions.

Notwithstanding, to address this issue even prior to this finding, the University informed us that the administration had already taken actions to address this situation by moving DCE from the College of Lifelong Learning to the Office of the Provost's Student Academic Success Services Unit. This occurred in July 2002. The Associate Provost to which DCE reports immediately established an assessment schedule for DCE. DCE was directed to work with the Assessment Office to develop a plan for annual assessment. This was accomplished and DCE, in consultation with the Assessment Office, has implemented an assessment plan. The Associate Provost has reviewed the plan and specific measurable outcomes and benchmarks have been established.

FINDING

5. DCE Program Administration

DCE Program administrators should implement appropriate measures to improve selected aspects of the DCE Program.

The Program provides students with assessment testing in mathematics, reading, and writing, which its mathematics and English coordinators use to make tutoring and course placement recommendations. In addition, the Program provides students with intensive advising/counseling, free tutoring, smaller class sizes, and other support services. Students admitted to the Program must sign a contract stating that they understand and agree to comply with various requirements. Our review of program records for 25 students enrolled during fall semester 2000, along with the Program's general operational practices, disclosed:

- a. DCE Program advisors did not have documentation that 2 (8.0%) of the 25 students signed or were provided with a student contract. In addition, advisors did not provide 4 (16.0%) students with a copy of the student contract. Advisors should ensure that all students sign and are provided with a copy of the DCE student contract to ensure that the students are aware of, acknowledge, and comply with the various requirements contained therein.
- b. DCE Program advisors inappropriately enrolled 1 (4.2%) of 24 applicable students in four mathematics courses before the student had completed the tutorials recommended by the mathematics coordinator and in three English courses that were more advanced than the English course recommended by the English coordinator. The student did not earn a passing grade in 3 (75.0%) of the mathematics courses or in any of the English courses. There was no documentation explaining why the advisors did not follow the placement recommendations of the mathematics and English coordinators.
- c. DCE Program advisors did not ensure that students met with them at least four times per semester as required by the student contract. Our review disclosed many instances in which individual students did not meet with their regular or probationary advisor during a given semester or met with them only once or twice. Often, the only meetings held during a given semester were for registration or schedule adjustment purposes.

Although the student contract required students to utilize the advising support function in order to remain in good standing in the Program, students faced no negative consequences for failing to comply with this requirement. Because intensive advising is the primary support mechanism of the DCE Program, advisors should meet with students periodically throughout the semester. Periodic meetings would allow advisors to more timely identify and address those issues negatively affecting students' academic success.

- d. DCE Program advisors did not exclude 3 (100.0%) of 3 students from continued participation in the Program when the students failed to meet the Program's satisfactory academic progress requirement. The student contract states that students must maintain a minimum cumulative GPA of 2.0. Further, it states that students whose GPA falls below 2.0 will be excluded from the Program if they have not earned a minimum cumulative GPA of 2.0 within two semesters.

DCE Program administrators informed us that, despite the aforementioned contract provision, students could participate in the DCE Program indefinitely, regardless of their GPA. While individual circumstances may warrant an exception to this contract requirement, we do not believe that allowing all poorly performing students to enroll indefinitely is an effective use of State and University resources.

- e. The DCE Program did not work with the University's Office of Admissions to identify and recruit potential students from among those individuals denied regular admission to the University. Instead, two DCE Program personnel spent considerable time and effort recruiting students through numerous presentations at schools, churches, businesses, and other organizations. Because the requirements for participation in the DCE Program were so liberal, we believe that many of the students denied regular admission to the University would qualify for admission to the DCE Program. By targeting these students for admission, the DCE Program should be able to substantially reduce or even eliminate its need for outside recruiting.
- f. The DCE Program did not survey students to determine why a large percentage of them dropped out of the University before completing the Program. As stated in Finding 4, the Program's three-semester retention rate for 125 selected students was only 42.4%. By ascertaining why students drop

out of the DCE Program, administrators may be able to implement changes that will increase student retention and ultimately result in higher program completion and graduation rates.

- g. DCE Program administrators did not establish written policies and procedures for the DCE Program. Written policies and procedures are necessary to provide a basis for establishing and documenting effective management control.

RECOMMENDATION

We recommend that DCE Program administrators implement appropriate measures to improve selected aspects of the DCE Program.

AGENCY PRELIMINARY RESPONSE

The University agrees with the recommendation.

The University informed us that the following action will be/has been initiated to address the finding:

- a. Since DCE Program policy requires that all students sign the DCE student contract, all advisors will be reminded that all students are to sign and receive copies of the fully executed contract and files will be periodically reviewed for compliance.
- b. All Program advisors will be reminded that it is imperative to have accurate and complete counseling notes, as well as other documentation in student files.
- c. Since intensive advising is a critical component of the DCE experience, Program advisors will be reminded of the required number of advising contacts to be held per semester and measures will be implemented to ensure that students fulfill this part of the student contract. The DCE director will establish a system to track advisor/student meetings and student utilization of services.
- d. DCE administration will work with the Associate Provost for Academic Affairs to establish a consistent exclusion policy and will modify the student contract to accommodate this change.

- e. DCE now works with the Office of Admissions in its recruiting efforts and obtains the names of students who have been denied regular admission. Given the community orientation of DCE, it is essential that it continue certain targeted recruiting efforts.
- f. DCE administrators are working with a researcher to develop a research methodology that addresses this issue.
- g. The administration of DCE has compiled the Program's policies and procedures into a Student Handbook and a Staff Handbook. All students and staff members will sign a statement acknowledging receipt of the handbook.

FINDING

6. Intellectual Property Management

The University needs to improve selected aspects of its intellectual property management practices.

The University's Sponsored Program Administration (SPA) is responsible for identifying and administering externally funded research programs. In addition, the University's Technology Transfer Office (TTO) is responsible for the identification, assessment, protection, and licensing of the University's intellectual properties, post-licensing oversight of licensing agreements, and distribution of royalties and fees resulting from University and externally funded research projects. In fiscal years 2000-01 and 1999-2000, the University had research related expenses totaling \$175.9 million and \$156.7 million, respectively, which resulted in at least 86 new invention disclosures. We reviewed selected aspects of the University's intellectual property management and reporting practices and noted:

- a. TTO did not require all applicable employees to sign a statement agreeing to notify TTO of intellectual properties invented during federally sponsored research as required by Title 37, Part 401 of the *Code of Federal Regulations* (known as the Bayh-Dole Act). The Bayh-Dole Act allows the University to retain the rights to intellectual properties discovered during federally funded research and also provides the federal government with the right to use the intellectual properties without additional expense. While University policy 86-5 requires University employees to report patentable intellectual properties to

TTO, a written statement would help to ensure that employees are aware of and agree to this requirement.

In a recent five-year compilation of annual surveys conducted by the Association of University Technology Managers, an industry trade group, Wayne State University ranked 93rd out of 117 research universities in the number of invention disclosures per \$1 million in research expenses and last among the State's four major research universities. Although there are many variables affecting the University's rankings in this survey, improved controls can only help to improve the University's related performance.

- b. TTO did not ensure that the applicable academic dean(s), department chairperson(s), and/or center/institute director(s) reviewed and approved invention disclosure forms as required by University policy 86-5. We reviewed 24 invention disclosure forms and noted that 6 (25.0%) were not signed by some or all of the required individuals. It is critical that these designated supervisory personnel review and approve invention disclosure forms because the forms serve as the starting point in TTO's patent-seeking process.
- c. SPA did not provide a final invention statement to applicable federal agencies at the conclusion of federally sponsored research projects as required by the Bayh-Dole Act. SPA identified 8 federally sponsored research projects that ended during our period of review; however, it could not provide any of the 3 final invention statements that we requested. A final invention statement lists all intellectual properties invented during the funded research or states that there were none.
- d. TTO did not ensure that the University entered into a memorandum of understanding with inventors and co-inventors before starting the patent application process as required by University policy 86-5. We noted that TTO had started the patent application process for 3 (42.9%) of 7 intellectual properties tested without first obtaining a memorandum of understanding signed by all applicable parties. By signing such a memorandum, the University and inventors and co-inventors agree to such things as patent ownership and royalty distribution.
- e. TTO did not contract for an independent audit of any of its major licensees as permitted by its license agreements. Independent audits are needed to verify

that the licensees appropriately identified, calculated, and remitted all royalties payable to the University. The Association of University Technology Managers recommends that licensing audits be performed at the end of the first period in which royalty payments are made and every two to three years thereafter. An audit early in a contractual relationship establishes protocol and expectations and should help to minimize later royalty disputes.

In fiscal year 2000-01, the University had 67 active licensing agreements that generated royalty revenue totaling \$1.3 million. The most lucrative of these agreements has been in effect since 1988 and, as of August 2002, has generated revenue of approximately \$2.7 million.

- f. TTO did not ensure that licensees procured and maintained insurance policies with agreed upon minimum coverage levels naming the University as an additional insured party as required by the license agreement. Failure to ensure that licensees are procuring and maintaining the required insurance policies could unnecessarily expose the University to potential claims and losses resulting from the licensing agreements.

RECOMMENDATION

We recommend that the University improve selected aspects of its intellectual property management practices.

AGENCY PRELIMINARY RESPONSE

The University agrees with the recommendation.

While many factors affect the University's national ranking, the University agrees that it is worthwhile to work toward improved controls. Relative to the specific points outlined in the finding, the University:

- a. Will seek approval of a change of wording in University policies to more explicitly state that University employees are obligated to disclose in writing inventions made using University resources and will develop procedures to obtain written agreements relating to inventions prior to processing contracts for federally sponsored research.

The University prefers to work with a smaller number of high quality inventions that are more likely to generate licenses, products, and royalty income. The University informed us that, as a result, in other more important indices, such as the number of licenses yielding royalty income, the University ranks higher (53rd).

- b. Will work to ensure that timely invention disclosure forms, including all required signatures, are obtained in every case.
- d. Will work to improve procedures regarding the execution of the memorandum of understanding in a timely fashion.
- e. Will audit two major licensees during the next year and will establish procedures for ongoing audits.
- f. Will immediately put into place procedures to require licensees to provide proof of compliance with the insurance provisions of their license agreements.

FINDING

7. Transfer Credit Evaluation

The University's Office of Admissions needs to implement measures to improve the timeliness of its transfer credit evaluation process.

The University accepts equivalent academic credit from accredited bachelor degree granting institutions and up to 64 semester credit hours from accredited associate degree granting institutions. Prospective transfer students desiring University credit for courses taken at other qualifying institutions must provide the Office of Admissions with official transcripts from these institutions. Generally, the transfer credit evaluation process (i.e., determining and notifying prospective students of course equivalencies and transfer credits) is completed electronically after Office personnel have input the relevant information from a student's transcript into the University's student system. However, in some instances, this process must be completed manually and may require a significant amount of research by Office personnel.

We assessed the timeliness of the University's transfer credit evaluation process for a total of 19 prospective students admitted to the University for fall semester 2002 and winter semester 2003. The average time to complete the transfer credit evaluations was 43 business days, with individual processing times ranging from 9 to 87 business days. The Office of Admissions did not provide 12 (63.2%) of the prospective students with their transfer credit evaluations until after the semester for which they had been admitted had begun. However, in 5 (41.7%) of the 12 instances, the delays were justified because the students had been admitted late or their transcript evaluation required significant manual research.

Office of Admissions personnel informed us that a changeover in computer systems delayed the completion of some students' transfer credit evaluations for fall semester 2002; however, other delays resulted from internal difficulties in obtaining the students' transcripts from other Office personnel.

It is important that the Office of Admissions timely notify prospective students of their transfer credit evaluation results to enable the prospective students to make informed enrollment and course registration decisions.

RECOMMENDATION

We recommend that the Office of Admissions implement measures to improve the timeliness of its transfer credit evaluation process.

AGENCY PRELIMINARY RESPONSE

The University agrees with the recommendation.

The University informed us that the Office of Admissions has implemented measures to ensure that transfer credit evaluations are disseminated to students in a timely manner. One additional staff member has been added to the Transfer Credit Evaluation Unit and will be assigned to Michigan community college transcripts. This will allow admitted students to receive their evaluations no later than 10 working days from the day of admission. This information will be provided to admitted transfer students and the time line monitored by staff in the Transfer Credit Evaluation Office. Other means of disseminating transfer credit evaluations are being explored, especially via email. The director of the Office of Admissions will periodically review transfer credit processes in order to ensure meeting the 10-day goal.

USE OF RESOURCES ALLOCATED TO RESEARCH AND SUPPORT OF ACADEMIC AND RELATED PROGRAMS

COMMENT

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

Conclusion: We concluded that the University was generally effective and efficient in its use of resources allocated to research and support of academic and related programs. However, we noted reportable conditions related to the good neighbor tuition waiver policy, deferred maintenance, the grading policy, course-based prerequisites, tuition and fee assessment and enrollment policy exceptions, classroom utilization, Joint Capital Outlay Subcommittee (JCOS) approval, and cost allocations to the auxiliary activities fund (Findings 8 through 15).

FINDING

8. Good Neighbor Tuition Waiver Policy

The University needs to ensure tuition parity between its resident and nonresident students.

The University established its "good neighbor" tuition waiver policy, which waives the nonresident portion of undergraduate and graduate tuition for residents of four Ohio counties and Ontario, Canada. The policy creates a disparity between its tuition rates charged to resident students versus nonresident students who reside in locations covered by the policy. For the academic year ended spring/summer semester 2002, the University waived approximately \$6.1 million in nonresident tuition under the policy. Had the University collected this tuition, it could have reduced the tuition rate charged to resident students by approximately \$10 per credit hour. This would have negated or substantially reduced the need for the 9% tuition hike imposed on resident students for the academic year.

In June 2002, the State Higher Education executive officers performed a survey of higher education coordinating and governing boards, which revealed that the most significant factor affecting tuition rates for resident students was State general fund appropriations. Underlying this factor is the premise that State appropriations subsidize the lower tuition rates charged to resident students. Parity is created

when institutions offset the State appropriations subsidy by charging higher tuition rates to nonresident students. The University's good neighbor tuition waiver policy does not provide this parity.

RECOMMENDATION

We recommend that the University ensure tuition parity between its resident and nonresident students.

AGENCY PRELIMINARY RESPONSE

The University disagrees with the recommendation.

The "good neighbor" tuition waiver policy provides benefits to the students who take advantage of its provisions, to the University, and to the Michigan economy. The University's Board of Governors approved the policy in 1998 as a tool for enrollment management, i.e., a strategy that addresses both growth in enrollment and the shaping of a student population that reflects a level of diversity in culture, values and academic preparation, which is one of the cornerstones of the University's urban mission and educational philosophy.

The policy provides an incentive and literally makes it affordable for a larger contingent of Canadian students to enroll at the University, and the \$6.1 million in revenue waived can also be viewed in a different light. For example, the University informed us that during 2002, this enrollment generated over \$8.5 million in additional tuition revenue. Prior to the implementation of the policy, enrollment at the University had been declining. Growth resulting from the policy helped the University sustain enrollment during a time of instability, offsetting declines in enrollment in other segments of the student population. This averted heavier budget cuts in University units and precluded the need for increases in tuition and fees of more than 10% for all students.

The comprehensive nature, complexities, and rigors of actually managing a business the size of the University and the delicate balance between enrollment management, infrastructure maintenance, and long-term management of costs require innovation, creativity, and business savvy.

The University has employed these attributes to specifically achieve the best educational value possible for its primary and predominant constituents, the taxpayers of Michigan.

FINDING

9. Deferred Maintenance

The University needs to reduce its deferred maintenance backlog.

The University estimated that for fiscal year 2000-01 its deferred maintenance backlog was approximately \$311 million and that its facilities condition index (FCI) was 20%. FCI is a generally accepted methodology for evaluating the overall physical condition of buildings and represents the ratio of the cost to correct all known deficiencies in the buildings to their current replacement value. According to the guidelines of the Association of Higher Education Facilities Officers, an FCI exceeding 10% indicates that buildings are in poor condition.

Recognizing its deferred maintenance needs, the University established a goal in its strategic action plan for the period 2001 through 2006 to enhance the physical environment and infrastructure on campus through, among other things, the development of a comprehensive deferred maintenance strategy. Also, the University's campus master plan developed in 2001 cited the need to elevate investment in deferred maintenance and capital renewal to levels that would more effectively preserve the existing physical plant. Further, in its capital outlay funding requests submitted to the State for fiscal years 2001-02 through 2003-04, the University's highest funding priorities were for various renovation and repair projects aimed at addressing its deferred maintenance needs. In these requests, the University stated that failure to complete the proposed projects during the next five years would impede the maintenance and progress of the programs operated within the applicable facilities and jeopardize the University's ability to achieve its strategic directions and campus master plan objectives. The University stated that this was especially true of the academic and research building projects included in the request because these buildings were already at risk of causing student, faculty, and staff attraction and retention problems.

While it is clear that the University has made efforts to identify its deferred maintenance needs, it has not effectively addressed those needs. For example, as

of April 2003, the University had not developed a comprehensive strategy for addressing its deferred maintenance needs as called for in its strategic action plan. In addition, the University had not sufficiently elevated its investment in deferred maintenance to levels that would effectively preserve its physical plant as called for in its campus master plan. In 1998, the University's Facilities Planning and Management Department (FP&M) cited the need for the University to expend approximately \$32.5 million annually to maintain its deferred maintenance backlog at equilibrium and an additional \$20 million annually for 10 years to eliminate its deferred maintenance backlog. However, for fiscal years 1998-99, 1999-2000, and 2000-01, the University had only expended approximately \$2.03 million, \$3.57 million, and \$6.30 million, respectively, on deferred maintenance.

FP&M staff informed us that the deferred maintenance projects that receive the highest funding priority are generally those that will have the largest impact or those that, if left uncompleted, would result in the largest loss or damage. Often, the projects selected for funding are selected because of equipment, system, or building failure. In addition to negatively impacting affected programs, staff, and students, waiting to address a deferred maintenance need until failure generally results in increased costs for repairing or replacing items that otherwise would not have required repair or replacement.

The University attributes its deferred maintenance backlog to rapid campus expansion, intense competition for internal funding, increased regulatory requirements, and a lack of precise decision making tools.

RECOMMENDATION

We recommend that the University reduce its deferred maintenance backlog.

AGENCY PRELIMINARY RESPONSE

The University agrees with the recommendation.

Unfortunately, the University is in no way unique with respect to the magnitude and criticality of its deferred maintenance conditions. Dating back to the late 1980's and into the 1990's, research from the Association of Higher Education Facilities Officers and the National Association of College and University Business Officers began to reveal that throughout the United States there was a serious and growing problem within higher education regarding deferred maintenance. The nature of

the University's facilities portfolio, one that is very similar to other State institutions in Michigan, is that much of it was constructed during the 1940's, 1950's, and 1960's.

In the not too distant past, the State of Michigan made annual appropriations for deferred maintenance projects to the public universities. However, such appropriations were eliminated during the 1990's. Notwithstanding, the University's commitment to deferred maintenance and capital renewal has increased significantly during the past 3 to 4 years and is expected to increase in future years. The University has been very fortunate to secure grants and gifts and has allocated other University resources to the attention of major deferred maintenance renovations. For example, for fiscal year 2003-04 there will be a \$43 million renovation/upgrade program for research laboratories, which will be financed by bonds.

The University has made major renovations and deferred maintenance its primary goal in each of the four most recent capital outlay requests and five-year capital outlay plans submitted to the State as well as in the University's 2020 campus master plan. Our commitment to deferred maintenance has been reflected in these project proposals and funding requests. The regrettable thing is the State's current difficulty in allocating funds to these important matters.

The University will continue to make deferred maintenance a high priority in its capital appropriation decisions. However, it will be difficult to make substantial inroads toward resolving this problem without a significant increase in specific capital appropriations from the State.

FINDING

10. Grading Policy

The University should modify its grading policy relative to its marks of "I" and "X."

The University's grading policy incorporates the use of the standard grades "A" (excellent) through "E" (failure) together with various other grades and marks,

including, but not limited to, marks of "I" (incomplete), "W" (official withdrawal) and "X" (insufficient work). Our review of the University's grading policy disclosed:

- a. The University's grading policy did not sufficiently encourage students receiving a mark of "I" to subsequently complete the coursework necessary to earn a grade and University credit in the applicable course. As a result, for the period fall semester 1999 through winter semester 2001, students failed to complete the necessary coursework and earn a grade and University credit in 3,962 (47.0%) of the 8,435 courses for which they had received marks of "I." Our analysis was completed between 1 and 2.5 years after the applicable semester in which the students received the mark of "I."

Instructors assign the mark of "I" upon a student's request when a student has not completed all of the required coursework and the instructor believes there is a reasonable probability that the student can complete the course successfully without having to again attend regular class sessions. The University grants students one calendar year to complete the required coursework and to convert the "I" to a grade. If a student does not convert an "I" to a grade within one calendar year, the University considers the "I" to be a mark of "W" unless the student obtains an extension from the instructor. The mark of "W" does not result in the student earning credit for the applicable course or impact the student's GPA.

The University may be able to increase the number/percentage of students receiving "I's" who subsequently complete the required coursework and earn University credit for the courses by changing its grading policy to be similar to the policies of the University of Michigan, Michigan State University, and Western Michigan University. These universities require students receiving marks of "I" to complete unfinished coursework within a designated time frame or receive a grade/mark of or equivalent to an "E," which negatively impacts the students' GPA. We believe that this negative incentive will encourage more students to complete unfinished coursework that they otherwise would not complete. This should result in increased student success and a more effective and efficient use of State and University resources.

- b. The University's grading policy did not provide clear direction to instructors as to when it was appropriate to assign a mark of "X" versus a grade of "E." As a result, instructors were not consistent in assigning these grades/marks. In

addition, it was unclear as to why the University utilized the mark of "X" when students could officially withdraw from courses without consequence through the end of classes each semester. The mark of "X" or its equivalent is not a standard mark utilized by other universities.

The *University's Undergraduate Bulletin* states that the mark of "X" is a nonpunitive mark that instructors should assign when students have submitted "insufficient" work and there is no basis on which to assign a grade. As previously stated, the grade of "E" is assigned when a student has submitted failing work. For the period fall semester 1999 through winter semester 2002, University instructors assigned 20,957 marks of "X," which represented 5.7% of all grades/marks assigned to undergraduate students for this period. We reviewed a total of 9 "E" and "X" grades/marks assigned by University instructors during winter semester 2002 and noted that in 2 (22.2%) instances the grading was not consistent with the University policy. In one instance, an instructor assigned an "E" to a student who had not attended any class sessions or completed any graded work. In another instance, an instructor assigned an "X" to a student who had attended several class sessions and taken five quizzes.

Various University personnel informed us that the mark of "X" is generally assigned when a student has not attended any class sessions but failed to officially withdraw from a course. Notwithstanding, these individuals also informed us that it was up to each instructor to determine which grade/mark to assign. One academic dean informed us that adjunct instructors sometimes are not aware that the mark of "X" is available for use and may inappropriately assign a grade of "E" when a mark of "X" would be more appropriate.

To rectify the inconsistent use of the mark of "X," the University should eliminate it from its grading policy or provide clear direction as to its appropriate use. Consistent application of the these marks/grades is important because, as previously stated, the grade of "E" affects a student's GPA and the mark of "X" does not. As a result, the improper assignment of these marks/grades could adversely impact a student's academic progress and continued financial aid and enrollment eligibility.

RECOMMENDATION

We recommend that the University modify its grading policy relative to its marks of "I" and "X."

AGENCY PRELIMINARY RESPONSE

The University agrees with the recommendation.

Since the matter of changing any grading policy falls under the purview of the Academic Senate, the Office of the Provost will bring the issue to the Academic Senate with the suggestion that a review of the "I" and "X" grading policy be reviewed.

FINDING

11. Course-Based Prerequisites

The University had not established an effective control for enforcing course-based prerequisites.

The University and its various academic units have established course-based prerequisites for many of the University's course offerings. These prerequisites include such things as satisfactorily completing a designated course or earning a minimum qualifying score on a placement examination. Course-based prerequisites are used to ensure that students possess certain foundational skills or knowledge deemed essential for successful course completion.

Generally, colleges and universities enforce course-based prerequisites at the time of registration. However, the University informed us that, because its student academic history data is spread across several unrelated systems, it has delegated enforcement responsibility to its academic units and, ultimately, to the student advisors and faculty members within these units. We spoke with representatives of several academic units and noted that monitoring and enforcement were conducted in many different ways and with seemingly different degrees of effectiveness. For example, faculty members in the School of Business Administration asked students to sign a statement certifying that they had satisfied the applicable course-based prerequisites. In contrast, faculty members in the Department of Computer Science required students to provide them with a copy of their transcripts to demonstrate that the students had satisfied applicable course-

based prerequisites. Generally, academic units did not perform these monitoring and enforcement actions until after the registration process.

To assess the effectiveness of these monitoring and enforcement actions, we reviewed the transcripts for 26 students enrolled at some time during the period fall semester 1999 through winter semester 2002. We noted that 14 (53.8%) students had enrolled in a total of 54 courses without having satisfied the necessary course-based prerequisites. In only 17 (31.5%) instances did these enrollments result in the student earning a grade of "C" or better. In many instances, the students repeated these courses multiple times, often without success. We followed up on 10 of the 54 course enrollments with the applicable academic units. The academic units did not have any documented rationale to justify 8 (80.0%) of the 10 enrollments.

The failure to adequately monitor and enforce course-based prerequisites negatively impacts student progress and results in an inefficient use of State and University resources.

RECOMMENDATION

We recommend that the University establish an effective control for enforcing course-based prerequisites.

AGENCY PRELIMINARY RESPONSE

The University agrees with the recommendation.

Due to technological constraints related to utilizing three different SISs over the past several years, the University is unable to enforce course-based prerequisites in the current SIS at this time. In order to remedy this particular issue, large volumes of the data from the various systems used in the past require conversion so the data is systemically compatible.

Given the scope of the task and the estimated financial cost, the project of converting the underlying academic records could not be included in conjunction with the recently completed SIS implementation and it is scheduled as a post-implementation project. The issue will be addressed in the next academic year and a request has been submitted to launch the project during winter semester 2004, provided the required funding of approximately \$400,000 is available.

In the interim, instructors and advisors are responsible for ensuring that students meet course-based prerequisites and, when appropriate, granting exceptions. Some departments may enforce prerequisites more strictly than others. Students are also responsible for their registration activity, including dropping courses when a prerequisite is not met.

FINDING

12. Tuition and Fee Assessment and Enrollment Policy Exceptions

The University needs to strengthen its controls for granting exceptions to its tuition and fee assessment and enrollment policies.

The University's Office of the Registrar is authorized to approve exceptions to the University's tuition and fee assessment and enrollment policies when unusual circumstances warrant. Unusual circumstances, as described in the University's Schedule of Classes, include such things as serious illness or death of an immediate family member or mis-advisement by a University representative. Unusual circumstances do not include changes in a student's work schedule or other employment demands, claim of lack of information, insufficient funds, unawareness of the difference between tuition and student financial aid, undocumented reasons, or reasons that are within the control of the student. Students who desire exception to the University's tuition fee assessment and enrollment policies must submit a request for exception to enrollment policy application (exception request*) with supporting documentation to the Office of the Registrar within approximately 2 months of the end of the applicable semester. Generally, approved exception requests result in a refund or cancellation of assessed tuition and/or fees.

For academic year 2001-02, the Office of the Registrar reported that students submitted 1,623 exception requests involving potential reduction in tuition and fee assessments, of which it approved 1,221 (75.2%) for a full or partial tuition and fee refund. We reviewed a total of 20 exception requests from academic years 2000-01 and 2001-02 and noted that, in 5 (25.0%) instances, the Office had approved the exception requests for situations not qualifying as unusual circumstances according to the Schedule of Classes. For example, the Office approved an exception request to drop a course with a full tuition refund totaling \$623 because the student's work load had increased after registration. As

previously stated, an unusual circumstance warranting an exception request does not include changes in a student's work schedule or other employment demands. A lack of administrative or supervisory oversight of the employee responsible for processing exception requests may have contributed to the cited deviations.

Our review also disclosed that the Office of the Registrar approved student exception requests without ensuring that the students were aware of the corresponding impact on their financial aid awards. In some instances, approved exception requests result in the complete reversal of a student's financial aid award, which the University must repay to the applicable awarding or funding agencies and subsequently attempt to collect from the student. Students who do not repay amounts owed from these transactions are not permitted further registration at the University.

In our review, we noted three instances in which the Office of the Registrar approved exception requests for financial aid recipients that resulted in the University repaying financial aid to the applicable awarding or funding agencies and the students owing the University a total of approximately \$15,600. There was no documentation that the students had met with the University's Office of Scholarship and Financial Aid (OSFA) prior to the approval of the exception requests. None of these students had repaid the University and, as a result, they are prohibited from future registration at the University.

The Office of the Registrar placed the responsibility on students to meet with OSFA to determine if or how exception requests would impact their financial aid awards. The Office of the Registrar should ensure that students meet with OSFA prior to approving any exception requests.

RECOMMENDATION

We recommend that the University strengthen its controls for granting exceptions to its tuition and fee assessment and enrollment policies.

AGENCY PRELIMINARY RESPONSE

The University partially agrees with the recommendation.

Management agrees that tuition cancellation processes warrant vigorous controls and careful monitoring. This is evidenced by the fact that, even prior to the finding,

the University had addressed this process and implemented changes. Prior to a policy and procedure change in March 2002, prevailing policy allowed "Requests for Exception" for one full year past the semester's normal refund deadline. The March 2002 policy reduced this time frame to 60 days after the end of the applicable semester after collaboration by a number of University units that agreed that controls needed to be strengthened.

As noted in the finding, the University's refund policies specifically allow for exceptions in unusual circumstances, such as illness, death, or mis-advisement. These illustrative examples are not limited solely to the specific examples described, nor are they intended to impede reasonable and prudent judgment. They are merely guidelines and are there merely to provide a framework for the appeals process and committee.

The finding also addresses the fact that students may not be aware of the impact that requests for policy exceptions may have on their financial aid awards. Students are specifically notified that they may have to repay financial aid received if their exception is approved and instructed to contact the Financial Aid Office.

Reducing the amount of time allowed for exceptions has been one method of achieving improvement. Senior management and the Tuition and Fee Appeals Board will continue to assess and monitor these activities and make additional changes when appropriate and warranted.

FINDING

13. Classroom Utilization

The University should regularly monitor and assess its classroom utilization.

Regular monitoring and assessment of classroom utilization are essential to ensure that the University is making the most efficient use of resources and to provide a basis for future building considerations, including construction of new classroom buildings and closure of nonessential buildings.

The Office of the Registrar electronically maintains the official schedule of classes and related classroom assignments for the entire University. However, the Office had not developed a standard query to summarize and periodically report

classroom utilization data to University management and it had not been requested to do so.

Annually, the State requires the University to submit a five-year capital outlay plan containing, among other things, classroom/building utilization data. However, in its four most recent plans, the University has been unable to provide this information to the State. Instead, the University has stated that it will be or is developing a new space inventory management system and hopes to develop a companion system to generate comprehensive utilization information. As of February 2003, the University has made little progress in developing this inventory management system and no progress in developing the companion system for utilization reporting.

RECOMMENDATION

We recommend that the University regularly monitor and assess its classroom utilization.

AGENCY PRELIMINARY RESPONSE

The University agrees with the recommendation.

The University believes that efficient utilization of campus classroom space is an essential component in properly managing the University's capital resources and monitoring of classroom utilization is performed, to the extent that the current reporting vehicles permit. The University informed us that, once per term, it runs a "Room Utilization Report" and a "Class Enrollment by Room Size Report" for the purpose of monitoring room utilization. These reports enable the University to reconfigure class offerings in ways that make the best use of available space. The University also informed us that it utilizes the "Courses With Zero Enrollment Report" regularly to identify committed rooms that it can release for better utilization of its classroom facilities. Lastly, the University informed us that it also maintains an inventory of lost classroom space so that the University can see changes to space available over time.

More structured and sophisticated reports would be a valuable tool in monitoring the University's classroom utilization. The University had developed and maintained a comprehensive array of room utilization reports within its prior information technology environment. Replication of these reports is on the list of

items required for completion of the recent new system implementation. When those project requirements are fully completed, the University's ability to monitor effective utilization of its physical resources will be enhanced.

FINDING

14. Joint Capital Outlay Subcommittee (JCOS) Approval

The University did not obtain JCOS approval for non-State-funded capital outlay projects exceeding \$1 million before proceeding with capital outlay construction.

Recent annual capital outlay appropriations acts require that universities obtain JCOS approval prior to starting non-State-funded capital outlay projects exceeding \$1 million. This includes both new construction and renovation projects. To aid in assessing the propriety of proposed projects, JCOS requires that universities submit a project use and financing statement describing the need for the project, the estimated construction and operating costs, and the anticipated project revenue. Projects not receiving JCOS approval are not eligible for future State operational funding.

From March 2001 through January 2002, the University's Board of Governors approved 10 non-State-funded capital outlay projects totaling \$52.7 million. At the time of our review (July 2002), the University's FP&M, which administers capital outlay projects, had not requested JCOS approval for any of the projects. FP&M personnel informed us that FP&M was aware of the reporting requirement and planned to submit the required reports. In November 2002, the University submitted the project use and financing statements to JCOS; however, 7 (70.0%) of the 10 projects were already fully or substantially completed.

RECOMMENDATION

We recommend that the University obtain JCOS approval for non-State-funded capital outlay projects exceeding \$1 million before proceeding with capital outlay construction.

AGENCY PRELIMINARY RESPONSE

The University agrees with the recommendation.

Since all contracts for construction projects costing more than \$150,000 require Board of Governors' authorization before construction can start, the University informed us that FP&M has now instituted a procedure by which JCOS approval will be requested at the same time or immediately following the request for approval of such projects by the University's Board of Governors.

FINDING

15. Cost Allocations to the Auxiliary Activities Fund

The University did not allocate any indirect costs to its auxiliary activities.

An auxiliary activity is an activity 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 University's auxiliary activities include such things as the student newspaper, radio station, conference center, and parking and transportation services.

The American Institute of Certified Public Accountants Industry (AICPA) Audit Guide entitled *Audits of Colleges and Universities* requires that expenditures of the auxiliary activities fund include all direct and indirect costs relating to the operations of the auxiliary activities. These expenditures can be charged directly or allocated as a proportionate share of costs of other departments or units.

For fiscal year 2001-02, the University incurred \$106.2 million in total expenses for institutional support and operations and maintenance of plant, both activities that substantially benefit all of the University's operations, including auxiliary activities. However, the University did not allocate any of these expenses to its auxiliary services, which accounted for approximately 2.0% of the University's overall expenditures excluding those made for institutional support and operations and maintenance of plant. Using a simplified cost allocation methodology, we would expect the University to allocate 2.0% (\$2.1 million) of the \$106.2 million of institutional support and plant operations and maintenance expenses to auxiliary services. The University informed us that it had not developed a methodology to allocate University-wide costs to these activities because of the lengthy calculation involved.

Auxiliary activities are, by definition, substantially self-supporting. Without an appropriate allocation of indirect overhead costs, the University is understating its expenses for auxiliary activities. As a result, the University's Board of Governors and management do not have accurate information for making critical funding decisions.

RECOMMENDATION

We recommend that the University allocate indirect costs to its auxiliary activities.

AGENCY PRELIMINARY RESPONSE

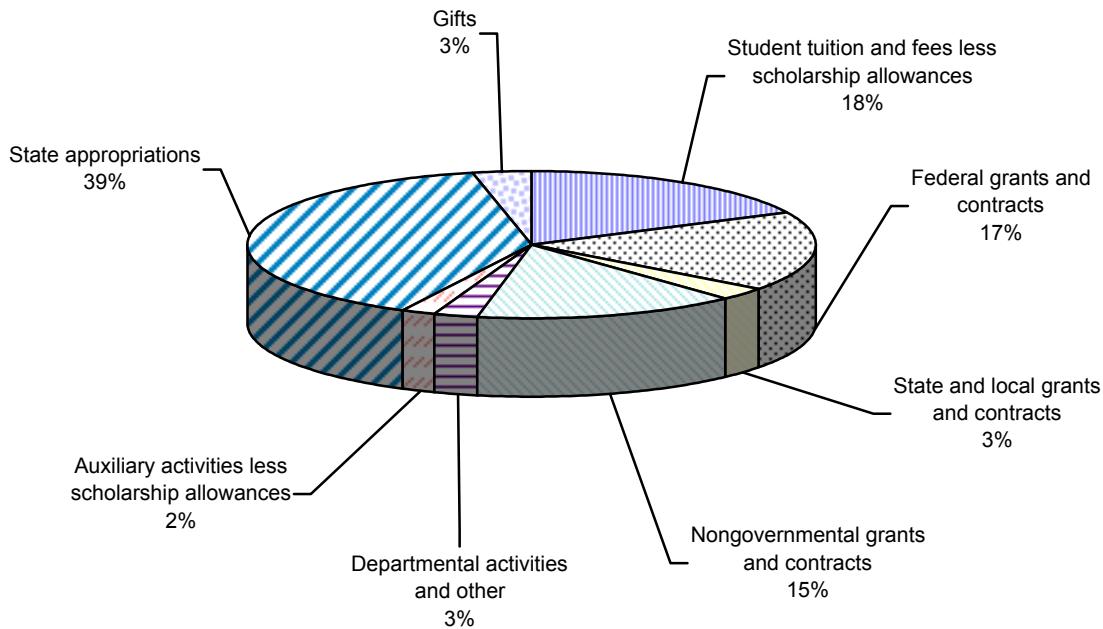
The University agrees with the recommendation.

The finding is correct in that the University did not necessarily always allocate an equitable portion of its indirect costs to its auxiliary activities. However, in some instances, the auxiliaries do pay for some or all of plant operations associated with their facilities. Historically, the primary reason for the University not allocating such cost to auxiliaries is that most of the auxiliary activities are not self-supporting, not because of a "lengthy computation" as indicated in the finding. To allocate additional indirect cost would only amplify the subsidy being provided to those operations.

However, since the auditors are correct in that the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide stipulates that the expenditures of auxiliary activities funds include all direct and indirect cost relating to their operations, beginning with fiscal year 2004-05, the University will begin allocating indirect cost to auxiliary activities.

SUPPLEMENTAL INFORMATION

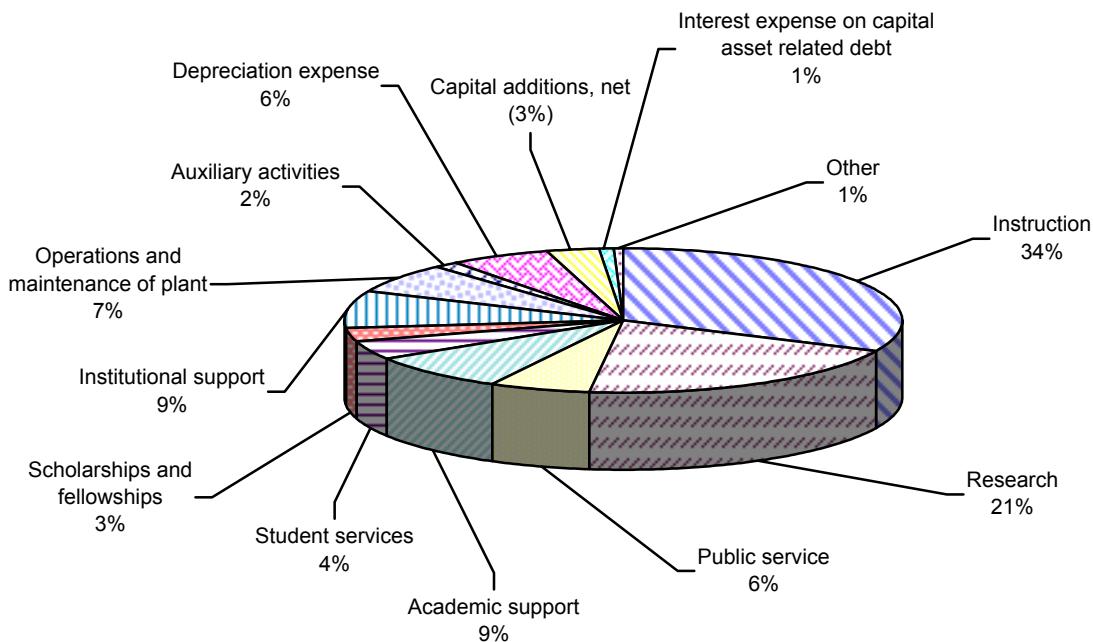
WAYNE STATE UNIVERSITY
Revenues, Excluding Capital Additions
For Fiscal Year 2001-02



	Amount
Operating Revenues:	
Student tuition and fees less scholarship allowances	\$ 116,421,424
Federal grants and contracts	115,249,562
State and local grants and contracts	19,656,880
Nongovernmental grants and contracts	98,647,134
Departmental activities and other	16,523,508
Auxiliary activities less scholarship allowances	13,230,042
Total Operating Revenues	<u>\$ 379,728,550</u>
 Nonoperating Revenues:	
State appropriations	\$ 256,899,036
Gifts	22,431,642
Total Nonoperating Revenues	<u>\$ 279,330,678</u>
 Total Revenues	 <u>\$ 659,059,228</u>

Source: Wayne State University financial statements.

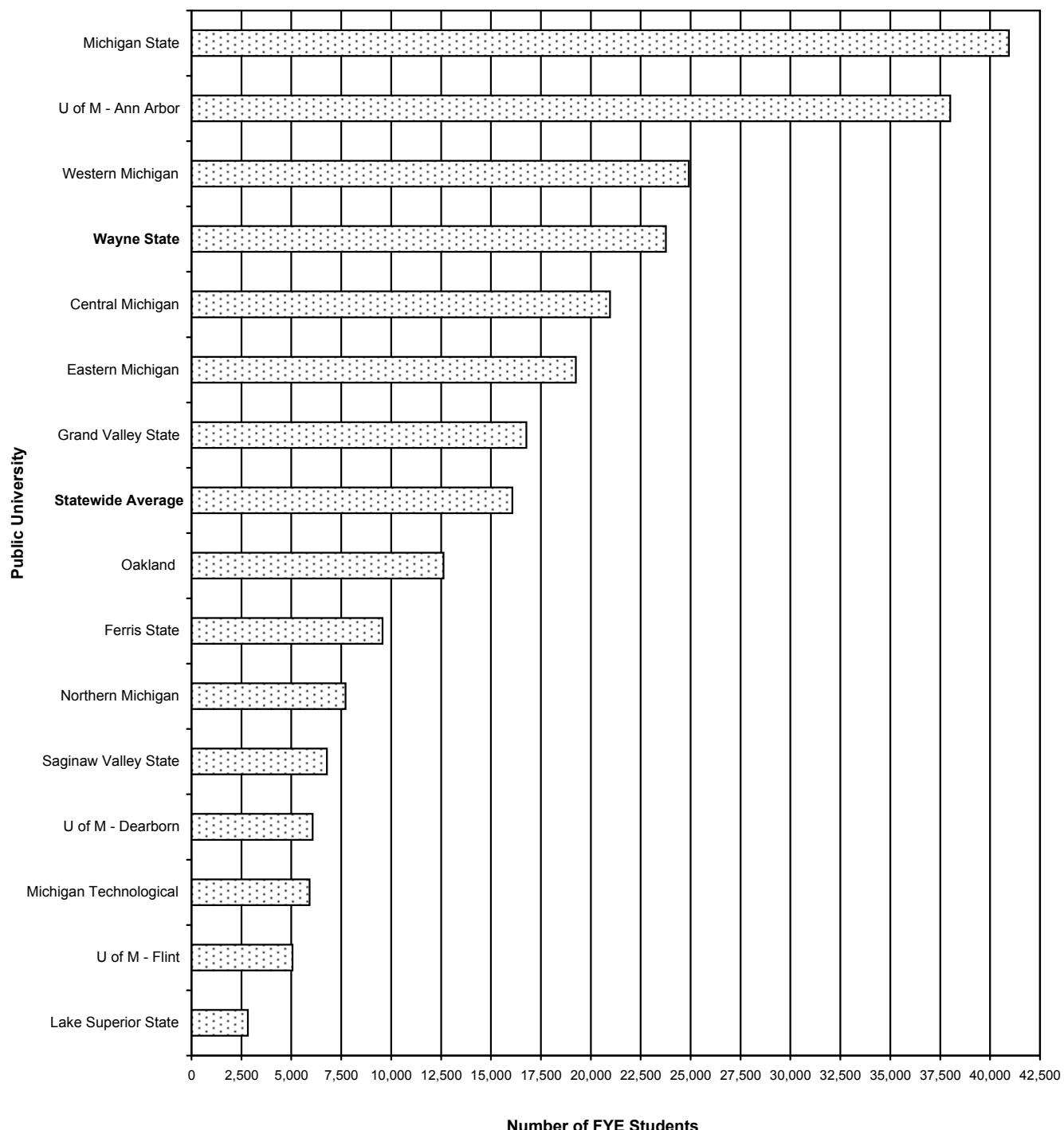
WAYNE STATE UNIVERSITY
Expenses
For Fiscal Year 2001-02



	Amount
Operating Expenses:	
Instruction	\$ 229,153,434
Research	143,566,920
Public service	41,491,278
Academic support	58,842,406
Student services	29,993,064
Scholarships and fellowships	22,750,467
Institutional support	58,590,179
Operations and maintenance of plant	47,607,896
Auxiliary activities	11,342,404
Depreciation expense	41,371,062
Capital additions, net	<u>(20,937,740)</u>
Total Operating Expenses	<u>\$ 663,771,370</u>
 Nonoperating Expenses:	
Interest expense on capital asset related debt	\$ 6,915,064
Other	3,647,330
Total Nonoperating Expenses	<u>\$ 10,562,394</u>
 Total Expenses	 <u>\$ 674,333,764</u>

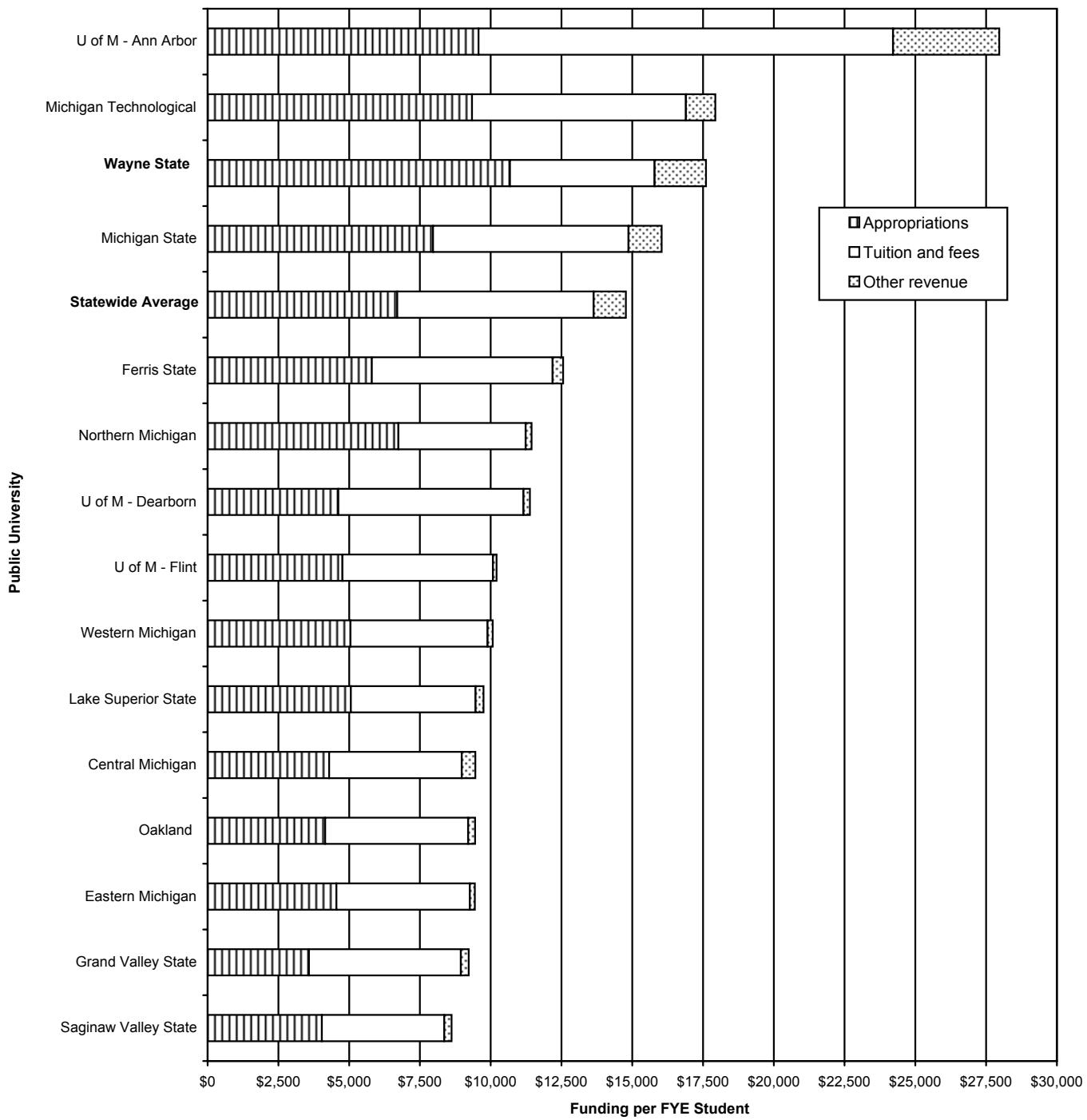
Source: Wayne State University financial statements.

WAYNE STATE UNIVERSITY
Statewide Enrollment by Public University
For Fiscal Year 2001-02



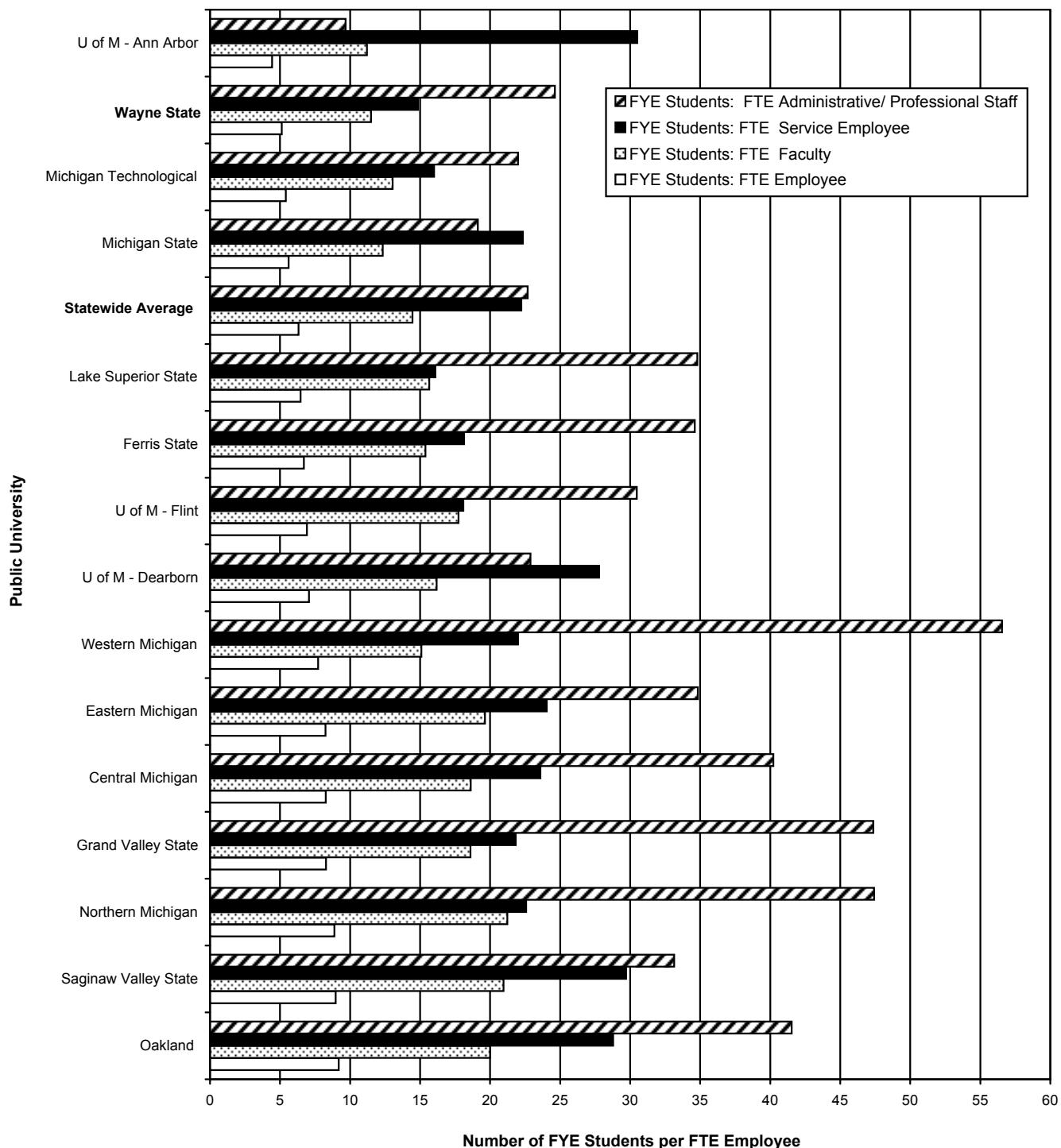
Source: Higher Education Institutional Data Inventory (HEIDI) data.

WAYNE STATE UNIVERSITY
 Per Student Funding From General Fund Sources by Public University
For Fiscal Year 2001-02



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

WAYNE STATE UNIVERSITY
Number of Students per Employee by Public University
For Fiscal Year 2001-02



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

Glossary of Acronyms and Terms

academic progress	The progression toward completion of coursework required for a degree.
classroom utilization	The proportion of time that classrooms are utilized for class sessions during regularly scheduled class times.
DCE	Division of Community Education.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
exception request	request for exception to enrollment policy application.
FCI	facilities condition index.
fiscal year equated (FYE)	The equivalent of 30 undergraduate semester credit hours.
FP&M	Facilities Planning and Management Department.
FTE	full-time equated.
FTIAC	first time in any college.
GE	general education.
GEIC	General Education Implementation Committee.
GPA	grade point average.
intellectual property	Property that can be protected under federal laws, including copyrights, patents, and trademarks.

JCOS	Joint Capital Outlay Subcommittee.
management control	The plan of organization, methods, and procedures adopted by management to provide reasonable assistance that goals are met; resources are used in compliance with laws and regulations; valid and reliable data is obtained and reported; and resources are safeguarded against waste, loss, and misuse.
minimum class enrollment	The class enrollment level below which the University evaluates whether it is in the best interest of the University to hold the class.
mission	The agency's main purpose or the reason that the agency was established.
OSFA	Office of Scholarship and Financial Aid.
performance audit	An economy and efficiency audit or 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.
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 that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
SIS	student information system.
SPA	Sponsored Program Administration.

TTO

Technology Transfer Office.

U of M

University of Michigan.