

PERFORMANCE AUDIT
OF
NORTHWESTERN MICHIGAN COLLEGE

October 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

Northwestern Michigan College

Report Number:
32-310-03

Released:
October 2004

Northwestern Michigan College, located in Traverse City, was founded in 1951 by a group of local citizens who wanted to provide an affordable college education for area residents. In 1955, Northwestern Michigan College became Michigan's first community college under the Michigan Community College Act. The College is primarily a public two-year institution of higher education offering academic and occupational degree and certificate programs.

Audit Objective:

To assess the effectiveness of the College's admissions and monitoring practices to help students successfully complete their classes and programs.

Audit Conclusion:

The College's admissions and monitoring practices were generally effective in helping students successfully complete their classes and programs.

Reportable Condition:

The College needs to improve its management control for enforcing its placement testing and college-level course enrollment requirements (Finding 1).

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Audit Objective:

To assess the effectiveness of the College's efforts to evaluate the quality of its educational programs.

Audit Conclusion:

The College was effective in its efforts to evaluate the quality of its educational

programs. Our report does not include any reportable conditions related to this audit objective.

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Audit Objective:

To assess the effectiveness and efficiency of the College's use of educational program resources.

Audit Conclusion:

The College was generally effective and efficient in its use of educational program resources.

Reportable Conditions:

The College needs to establish a formal minimum class enrollment policy that includes documentation and approval requirements for low enrollment classes. Also, the College needs to periodically update its break-even analysis, which is one factor used in determining the threshold for holding low enrollment classes. (Finding 2)

The College did not assess classroom utilization as required by the Department of Management and Budget's Office of the State Budget (Finding 3).

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Audit Objective:

To assess the effectiveness of the College's methods for allocating operating and service costs to and for receipting revenues collected from self-liquidating auxiliary activities and programs.

Audit Conclusion:

The College was generally effective in its methods for allocating operating and service costs to and for receipting revenues collected from self-liquidating auxiliary activities and programs.

Reportable Conditions:

The College did not allocate all appropriate operational and institutional support costs to the auxiliary activities (Finding 4).

The College had not developed written policies and procedures for receipting revenues collected from auxiliary activities and programs (Finding 5).

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Agency Responses:

Our audit report includes 5 findings and 6 corresponding recommendations. The College's preliminary response indicates that it is in general agreement with all 6 recommendations. The College informed us that corrective action has already been initiated or completed since the audit.

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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:
<http://audgen.michigan.gov>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. McTAVISH, C.P.A.
AUDITOR GENERAL

October 19, 2004

Ms. Cheryl Gore Follette, Chairperson
Board of Trustees
and
Mr. Timothy J. Nelson, President
Northwestern Michigan College
Traverse City, Michigan

Dear Ms. Follette and Mr. Nelson:

This is our report on the performance audit of Northwestern Michigan College.

This report contains our report summary; description of agency; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the College'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

Northwestern Michigan College is primarily a public two-year institution of higher education offering academic and occupational degree and certificate programs. Also, the College offers students opportunities for certain bachelor's and master's degree programs through partnerships with Central Michigan University, Davenport University, Eastern Michigan University, Ferris State University, Grand Valley State University, Michigan State University, Michigan Technological University, Oakland University, Spring Arbor University, the University of Michigan, and Western Michigan University.

The College, located in Traverse City, was founded in 1951 by a group of local citizens who wanted to provide an affordable college education for area residents. In 1955, Northwestern Michigan College became Michigan's first community college under the Michigan Community College Act.

The College operates under Sections 389.1 - 389.195 of the *Michigan Compiled Laws*, commonly known as the Community College Act of 1966. It is governed by a Board of Trustees consisting of seven members elected by the voters of the community college district for six-year terms of office.

The College's vision is to improve the changing world by strengthening the communities it serves, one learner at a time. The College's values state that it is responsive to its communities, provides a caring environment, focuses on learning, strives for excellence, practices responsible stewardship, and exemplifies ethical behavior.

The College is supported financially through appropriations from the State of Michigan, student tuition and fees, local property taxes from Grand Traverse County, federal and State grants, and other miscellaneous income. For the fiscal year ended June 30, 2002, the College reported current fund revenues (general, designated, auxiliary activities, and restricted funds) of \$38,653,397; expenses of \$37,009,019; and enrollment of 2,640 fiscal year equated students*.

* See glossary at end of report for definition.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance audit* of Northwestern Michigan College had the following objectives:

1. To assess the effectiveness* of the College's admissions and monitoring practices to help students successfully complete their classes and programs.
2. To assess the effectiveness of the College's efforts to evaluate the quality of its educational programs.
3. To assess the effectiveness and efficiency* of the College's use of educational program resources.
4. To assess the effectiveness of the College's methods for allocating operating and service costs to and for receipting revenues collected from self-liquidating auxiliary activities and programs.

Audit Scope

Our audit scope was to examine the program and other records of Northwestern Michigan College. 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.

A public accounting firm engaged by the College audits the financial statements of Northwestern Michigan College annually.

Audit Methodology

Our audit procedures were performed from June through September 2003. Our review and tests of College records and procedures were primarily for the period July 1, 2001 through September 30, 2003.

* See glossary at end of report for definition.

To accomplish our first objective, we reviewed the College's admission and enrollment processes, including the methods used by the College for determining course placement and enrolling students in developmental courses*. We extracted and analyzed student academic record information from the College's database and analyzed the academic assessment and placement process. We analyzed the effectiveness of the College's developmental courses by reviewing students enrolled at the College during the period July 2001 through July 2003. We evaluated the College's efforts and methods used for monitoring student academic progress and achievement. We reviewed enrollment trends and the College's efforts to recruit and retain students.

To accomplish our second objective, we evaluated the College's efforts and methods used to assess and monitor the quality of its educational programs. We assessed whether the College had established procedures for evaluating and obtaining accreditation of its programs. We evaluated the College's efforts to survey its graduates to determine if the education provided by the College was satisfactory to meet the students' educational and career goals. We examined the College's efforts to obtain results of licensing and certification examinations and its processes used to contact employers of graduates and four-year colleges and universities to determine if the training provided by the College was adequate. Also, we reviewed the methods used by the College to assess the job training needs of the community's employers.

To accomplish our third objective, we extracted and analyzed student academic record information from the College's database for use in examining repetitive course enrollment, minimum class enrollment, and course withdrawals. Also, we analyzed the College's assignment methods for, and use of, its classrooms, laboratories, and faculty, including the assignment of sabbaticals.

To accomplish our fourth objective, we interviewed College staff and examined the College's allocation of operating and service costs to self-liquidating auxiliary activities and programs and the revenue received from these activities and programs.

Agency Responses

Our audit report includes 5 findings and 6 corresponding recommendations. The College's preliminary response indicates that it is in general agreement with all 6

* See glossary at end of report for definition.

recommendations. The College informed us that corrective action has already been initiated or completed since the audit.

The agency preliminary response that follows each recommendation in our report was taken from the College'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 House and Senate Appropriations Committees, the House and Senate Fiscal Agencies, the Department of Labor and Economic Growth, the Auditor General, 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.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

STUDENT SUCCESS IN COMPLETING CLASSES AND PROGRAMS

COMMENT

Audit Objective: To assess the effectiveness of Northwestern Michigan College's admissions and monitoring practices to help students successfully complete their classes and programs.

Conclusion: The College's admissions and monitoring practices were generally effective in helping students successfully complete their classes and programs. However, our assessment disclosed a reportable condition* related to college-level course enrollments (Finding 1).

Noteworthy Accomplishments: Northwestern Michigan College is the first community college in Michigan to provide an associate degree in a nursing program on-line. Starting in fall 2003, the nursing program offered all of its lecture classroom coursework on-line to students. The students will continue to have clinical coursework scheduled especially for them. By having on-line instruction for its nursing program, the College increases its student base by allowing students to take classes at home.

FINDING

1. College-Level Course Enrollments

The College needs to improve its management control* for enforcing its placement testing and college-level course enrollment requirements.

Placement testing and enrollment requirements are necessary to help ensure that students are placed in the appropriate level based on their needs and abilities. Students with low placement test scores were allowed to enroll in college-level courses without demonstrating academic competency.

The College requires all new degree-seeking students or certificate-seeking students to complete course placement testing in reading, writing, and mathematics before registering for college-level courses. The College uses the COMPASS/ASSET test* as a tool to determine the entry-level course for students.

* See glossary at end of report for definition.

The placement tests are required for all new degree-seeking students, unless students obtain a placement test waiver. Placement test waivers are granted to transfer students who successfully completed a college-level reading, writing, and/or mathematics course. Also, waivers for the reading and writing placement tests are awarded to students who received an American College Test (ACT) score of 18 or above in reading and 19 or above in writing. When a student takes a placement test and achieves an unacceptable test score, the College requires the student to enroll in a reading, writing, and/or mathematics developmental course that the student tests into. However, a student who tests into a developmental course may be excused from taking the required course if a College academic counselor grants the student a waiver.

We reviewed the effectiveness of the College's management control related to placement testing and college-level course enrollment requirements and determined:

- a. Students using the College's on-line and telephone registrations could bypass its college-level course requirements. College administrators and staff informed us that students who use on-line or telephone registration processes are not monitored by registration staff to verify that students enrolled in the proper college-level course or received an appropriate COMPASS/ASSET test score.
- b. Students who achieved an unacceptable assessment test score in the reading or writing components of the COMPASS/ASSET test did not always complete the required developmental English course(s).

We noted that 206 (19.8%) of 1,041 students who tested into developmental English courses did not complete the required developmental English course(s) prior to enrolling in a college-level English course. We reviewed the registration records for 77 of these students to determine that they obtained a waiver from an academic counselor. Of the 77 students, 8 (10.4%) had not received an academic counselor's documented approval to enroll in the college-level English course.

RECOMMENDATION

We recommend that the College improve its management control for enforcing its placement testing and college-level course enrollment requirements.

AGENCY PRELIMINARY RESPONSE

The College agrees with the audit recommendation and informed us that the specific actions recommended have been implemented.

The College is continually improving its processes both to enhance service to its students and to improve operational efficiency and effectiveness. The audit specifically identified two areas. The first was that students using on-line registration and telephone registration could bypass the check for college-level course requirements. The College informed us that it discontinued telephone registration on January 1, 2004 because of students' preference for on-line or face-to-face registration. The on-line registration system has been enhanced to include an automated verification of qualifications for college-level courses.

The second area was that documentation of waivers of the requirement for developmental English did not always exist. The procedures have been revised to require written waivers from academic counselors.

The specific actions above have been implemented, and the College will continue to look for ways to improve its processes.

EFFORTS TO EVALUATE THE QUALITY OF EDUCATIONAL PROGRAMS

COMMENT

Audit Objective: To assess the effectiveness of the College's efforts to evaluate the quality of its educational programs.

Conclusion: The College was effective in its efforts to evaluate the quality of its educational programs. Our report does not include any reportable conditions related to this audit objective.

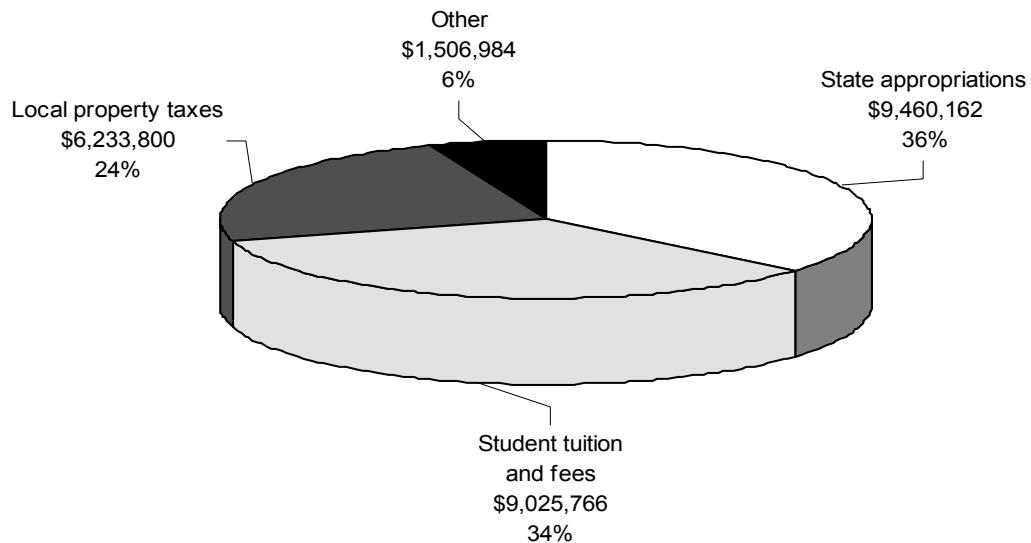
Noteworthy Accomplishments: In July 2001, the College implemented a Web-based application that provides enrollment information to college executives and disciplines. Such information allows the College to monitor program and course enrollment trends in order to make decisions on how to effectively utilize its resources and address programs that are not meeting enrollment expectations. In addition, the information provides a basis for forecasting future enrollment trends and revenues from tuition.

USE OF EDUCATIONAL PROGRAM RESOURCES

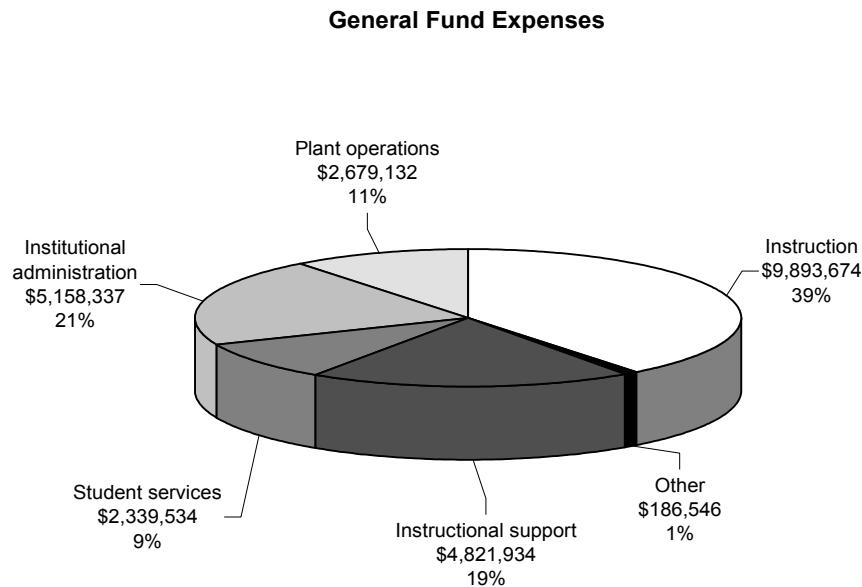
COMMENT

Background: The College receives its general fund revenues for educational programs from three primary sources: State appropriations, student tuition and fees, and local property taxes. The following chart shows the amount and percentage of each funding source for the fiscal year ended June 30, 2002:

General Fund Revenues - Combined Operating and Nonoperating



The College's general fund primarily supports its instructional, student service, and administrative costs. The following chart shows the amount and percentage of general fund expenses for the fiscal year ended June 30, 2002:



Audit Objective: To assess the effectiveness and efficiency of the College's use of educational program resources.

Conclusion: The College was generally effective and efficient in its use of educational program resources. Our assessment disclosed reportable conditions related to minimum class enrollment and space utilization (Findings 2 and 3).

FINDING

2. Minimum Class Enrollment

The College needs to establish a formal minimum class enrollment policy that includes documentation and approval requirements for holding low enrollment classes. Also, the College needs to periodically update its break-even analysis, which is one factor used in determining the threshold for holding low enrollment classes.

In 2001, the College administrators developed a new methodology for determining when a class is held or canceled because of minimum enrollment standards. This methodology resulted in an informal practice that shifted the focus from a course basis to a program basis. Thus, a minimum enrollment standard was not established. The practice involved the discipline chairman reviewing enrollment levels prior to the start of classes each semester and determining whether to hold or cancel classes.

The College held 3,105 credit classes during summer semester 2001 through spring semester 2003 (8 semesters). We analyzed the classes with enrollment of fewer than 10 students to determine the College's rationale for holding the classes. However, we excluded all classes that were not applicable to our analysis, including independent studies, internships, and certain specialized courses. Our analysis disclosed:

- a. The College did not always document the reason and formal approval for holding low enrollment courses.

During summer semester 2001 through spring semester 2003, 407 (13%) of the College's credit classes were held with fewer than 10 students. When we inquired about the rationale for holding these classes, the College was unable to provide us with that information.

In addition, from fall semester 2001 through summer semester 2002, there were 60 (14%) of 444 credit classes held with unsubstantiated low enrollment that were taught by 16 instructors receiving overload* compensation. These instructors earned approximately \$78,000 in overload compensation during that period.

Documenting both the reason and formal approval for holding low enrollment classes would help ensure that the College's resources are used efficiently.

* See glossary at end of report for definition.

b. The College needs to improve its methodology for assessing its break-even analysis:

- (1) The College did not exclude nontuition-paying students from enrollment counts when determining whether to hold low enrollment classes.

During summer semester 2001 through spring semester 2003, 31 (1%) of the College's credit classes had enrollment of fewer than 10 students when nontuition-paying students were excluded. Employees, employee family members, and retirees do not pay tuition for credit courses taken at the College. To ensure the most efficient use of resources and enable the College to make more informed decisions on whether to hold or cancel classes, the College should consider the effects of nontuition-paying students.

- (2) The College had not recently updated its break-even analysis.

The College's most recent break-even analysis contained data from 2001, which indicated that a class would need 24 students to break even. To ensure that break-even analyses are accurate, the College should assess its break-even analysis on a periodic basis using current information.

RECOMMENDATIONS

We recommend that the College establish a formal minimum class enrollment policy that includes documentation and approval requirements for holding low enrollment classes.

We also recommend that the College periodically update its break-even analysis used in determining the threshold for holding low enrollment classes.

AGENCY PRELIMINARY RESPONSE

There are two recommendations associated with Finding 2. The College agrees with the first recommendation and stated that it has implemented the necessary changes to address this. The College partially agrees with the second recommendation.

Beginning fall semester 2000, the College implemented class size targets that were based on an efficiency target by academic area. The College informed us that this process has resulted in improvement in overall class size efficiency since that time. While these procedures existed during the audit period, neither the procedures nor the approvals were well documented. Formal procedures are now in place, and a form is used for documentation of the approval of low-enrolled sections.

The break-even analysis at the College is for informational and trending purposes. The College agrees with updating the break-even analysis, but disagrees with it as a basis for determining whether a low enrollment class should be held.

A break-even analysis is not the primary factor in the College's determination of whether to hold a low-enrolled class. The College's commitment to its students to offer its programs within a one- or two-year period is the primary consideration. If, for example, the low-enrolled class is the only one offered, the College allows it to run to ensure that its students have the opportunity to graduate or finish their transfer requirements in a timely manner. As an institution committed to affordable, accessible education, the College is concerned about the perception that all offerings can or should "break even" based on tuition alone.

In fall 2000, the College established the measurement of section efficiency at an academic area level. This is a more comprehensive look at class size efficiency. For example, if all sections just met minimum enrollment, overall efficiency would not be very high. In addition, individual sections with enrollment below 50% of the maximum class size must receive approval from the administration. Looking at an average percent of maximum course capability at the academic area level, where scheduling is controlled, encourages and ensures overall high efficiency in section size. The College believes that its approach best balances meeting student needs with good fiscal management.

FINDING

3. Space Utilization

The College did not assess classroom utilization as required by the Department of Management and Budget's (DMB's) Office of the State Budget.

An assessment of classroom utilization is essential to ensure that the College is making the most efficient use of its resources and to provide a basis for determining future classroom needs.

In fiscal years 2001-02 through 2003-04, the Office of the State Budget required the College to include building and/or classroom utilization rates (percentage of rooms used and percentage of capacity) in its five-year capital outlay comprehensive plans.

College administrators informed us that one individual prepares and maintains handwritten classroom schedules. This manual process did not include calculating the number of hours each classroom was utilized. The College recognized this problem and addressed it by purchasing software and establishing a team to implement the software for classroom scheduling purposes.

RECOMMENDATION

We recommend that the College assess classroom utilization as required by DMB's Office of the State Budget.

AGENCY PRELIMINARY RESPONSE

The College agrees with the audit recommendation. The College initiated a project in 2002 to select a software system to accomplish this. In late 2002, the College purchased and began implementing the CollegeNet R25 and S25 scheduling software. Without the software system to produce the requested results accurately, it would have been a time-consuming and, therefore, costly manual effort to provide the data.

While the College was not assessing utilization in the manner that the Office of the State Budget requested, the College did have knowledge of its classroom utilization. The College informed us that, for years, its general classrooms have been at full utilization from 10:00 a.m. to 3:00 p.m. on Monday through Thursday and at approximately 90% utilization from 8:30 a.m. to 10 a.m. and from 5:00 p.m. to 10:00 p.m. on Monday through Thursday.

ALLOCATION OF OPERATING AND SERVICE COSTS TO AND RECEIPT OF REVENUES COLLECTED FROM SELF-LIQUIDATING AUXILIARY ACTIVITIES AND PROGRAMS

COMMENT

Audit Objective: To assess the effectiveness of the College's methods for allocating operating and service costs to and for receipting revenues collected from self-liquidating auxiliary activities and programs.

Conclusion: **The College was generally effective in its methods for allocating operating and service costs to and for receipting revenues collected from self-liquidating auxiliary activities and programs.** However, our assessment disclosed reportable conditions related to cost allocation to auxiliary activities and policies and procedures (Findings 4 and 5).

FINDING

4. Cost Allocation to Auxiliary Activities

The College did not allocate all appropriate operational and institutional support costs to the auxiliary activities.

By appropriately allocating all institutional support costs related to the auxiliary activities fund, College management becomes aware of the total costs for operating these activities. In addition, appropriate allocation allows management to make informed decisions regarding the allocation of College resources. Further, for financial reporting purposes, proper cost allocation will prevent auxiliary activities fund expenses from being understated.

An auxiliary activity is an entity that exists to furnish goods or services to students, faculty, or staff and is not, by itself, an instructional or administrative activity. An auxiliary activity may also serve the general public. The auxiliary activities fund accounts for transactions of these revenue-producing, substantially self-supporting activities. The College's auxiliary activities include the University Center, Dennos Museum, student housing, and college bookstore.

The National Association of College and University Business Officers' (NACUBO's) sixth edition of *College and University Business Administration* states that it is

appropriate for auxiliary activities to pay for all direct costs. This guidance also states:

Most institutions charge administrative overhead or levy a charge for centrally provided services in such areas as purchasing, payroll, law enforcement, legal aid, accounting services, and many others.

During fiscal years 2000-01 and 2001-02, the College reported approximately \$4.5 million annually in expenses for auxiliary activities. Although the College allocated some campuswide costs to the auxiliary activities, it did not allocate all utility and insurance costs:

- a. Heat and electric costs were not allocated to the University Center.
- b. Water/sewer and trash disposal costs were not allocated to the University Center and Dennos Museum.
- c. Insurance costs were not allocated to the University Center, Dennos Museum, and student housing and college bookstore.

RECOMMENDATION

We recommend that the College allocate all appropriate operational and institutional support costs to the auxiliary activities.

AGENCY PRELIMINARY RESPONSE

While the College generally agrees with this recommendation, it is important to note that the College is following all accounting standards pertaining to this subject, including the Governmental Accounting Standards Board (GASB) requirements and the State's Activities Classification Structure (ACS) guidelines. These standards and guidelines do not require these allocations. Nevertheless, the College agrees that allocation of costs does contribute to a better understanding of operations when those allocations can be made with a reasonable amount of effort and accuracy. In fiscal year 2002-03, the College began allocating support costs to the Dennos Museum, with the exception of insurance expense, which is not itemized by facility. Student housing and college bookstore have always been allocated their share of support costs, with the exception of insurance costs.

The University Center building is not dedicated to the University Center auxiliary program, so the allocation could vary from semester to semester.

The College informed us that the largest portions of support costs to the College's auxiliary activities were already being allocated by the end of the audit period. In addition, the College will begin to allocate insurance costs to the Dennos Museum and to student housing and college bookstore.

FINDING

5. Policies and Procedures

The College had not developed written policies and procedures for receipting revenues collected from auxiliary activities and programs.

The lack of written policies and procedures results in ineffective control, which increases the risk that cash receipts could be misappropriated or lost. However, no evidence of misappropriated or lost cash came to our attention during the audit.

Written policies and procedures would document the duties of key personnel and communicate management's commitment to, and support of, strong control. Written procedures would also be valuable in training new employees and serve as guides for better administration and control over operations.

For the fiscal year ended June 30, 2002, the College recorded the following operating revenues for its auxiliary activities:

- University Center - \$290,000
- Dennos Museum - \$752,000
- Student housing - \$1.6 million
- College bookstore - \$1.9 million

RECOMMENDATION

We recommend that the College develop written policies and procedures for receipting revenues collected from auxiliary activities and programs.

AGENCY PRELIMINARY RESPONSE

The College agrees with this recommendation and had already begun addressing this area prior to the audit. The College stated that documentation was complete before the audit began but had not been completed during the audit period. It is important to note that procedures did exist, and were followed, but not documented. As noted in the audit, no instances of mishandling were identified. Nevertheless, the College is in agreement with the importance of having those documented.

GLOSSARY

Glossary of Acronyms and Terms

COMPASS/ASSET test	Test used by Northwestern Michigan College for assisting in student placement.
developmental course	A course that provides academically under-prepared students with the skills they need to succeed in college-level courses. Such courses provide learning strategies designed to improve or overcome any marked deficiency in basic competencies, including a deficiency in content previously taught but not learned.
DMB	Department of Management and Budget.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
fiscal year equated student	The calculated equivalent of a student having completed one full year (31 semester hours) of credit course work.
management control	The plan of organization, methods, and procedures adopted by management to provide reasonable assurance 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.
overload	Additional hours assigned to a faculty member beyond the faculty member's normal work load. The normal work load required for full-time faculty is 32 contact hours per academic school 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.
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.