Auxiliary and Supplemental Revenues

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Members of the MnSCU Board of Trustees
Chancellor James H. McCormick.

In January 2009, the Audit Committee approved my office conducting a study of auxiliary and supplemental revenues. In a May 2009 preliminary report, we reviewed $167 million of revenue sources with the committee, and selected bookstores, health services, and academic resale activities for further analysis.

This report presents the results of our analysis of those three supplemental revenue sources. In addition, we have communicated certain operational issues to presidents and the Chancellor for their consideration. We conducted this study in compliance with the *Institute of Internal Auditors: Standards for Professional Practice of Internal Auditing*.

We appreciate the excellent cooperation and assistance that we received from employees in the Office of the Chancellor and all MnSCU colleges and universities.

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Executive Director

CONTENTS

Melissa Primus, Central Minnesota Regional Audit Coordinator, had lead responsibilities for this project.

Executive Summary

Bookstore Operations

- System-wide profits from bookstores were $6.5 million in fiscal year 2008, a reasonable amount compared to national metrics.
- Colleges and universities had poor financial reporting practices that suggest the reported profits are overstated somewhat.
- Cumulative unrestricted net assets attributable to bookstores were over $45 million in fiscal year 2008, a substantial resource that represented 23% of total college and university unrestricted net assets. Generally, we found inadequate financial planning for the use of these resources.
- Decisions to outsource bookstore operations were made several decades ago by five state universities and need to be revisited. Our analysis suggests that the benefits of university-operated bookstores may outweigh the risks.
- Bookstores present some operational challenges, such as integrating bookstore management systems and receiving faculty textbook selections timely.

Student Health Services Operations

- Six universities and three colleges operate student health service clinics. There is a wide variation in the services offered. A statutory compliance issue related to offering health services at Metropolitan State University needs to be resolved.
- Not all colleges with health service clinic operations have purchased healthcare facilities medical professional liability insurance.
- Student health insurance requirements vary considerably at colleges and universities.
- Statutory reporting requirements to the Board of Trustees for health service financial activity have not been met. Furthermore, there is significant variation in unrestricted net assets for student health service operations. Possibly, a board policy is needed to clarify requirements.

Academic Program Resale Activities

- Supplemental revenues generated from academic programs were approximately $5.6 million in FY 2008 and were confined largely to seven technical education programs. College and university administrators must ensure that these programs have good controls.

Section I: Introduction

This project focused on institutional practices for managing auxiliary and supplemental revenue sources. The study was completed in two phases and addressed the following questions:

Phase I
- To what extent have colleges and universities generated auxiliary and supplemental revenues?
- What are the most significant sources of these revenues?
- Have colleges and universities established sufficient institutional policies and practices regarding controls and compliance for auxiliary revenues?

Phase II
- What are the primary strategic and operational features of these activities, such as owning vs. contracting the services, pricing practices, operating margins, levels of retained earnings, extent of institutional support, indirect cost recoveries, etc., for these activities?
- Have colleges and universities established sufficient internal controls to protect their assets and ensure compliance with major legal and policy provisions?

Appendix A contains a summary of relevant Minnesota Statutes, Board Policies, and System Procedures that were reviewed.

Audit Scope and Methodology

Internal Auditing conducted fieldwork for Phase I of the project at all 37 colleges and universities from March 2009 to May 2009. Primary features of the methodology included:

- Completing an analysis at each college and university to summarize auxiliary and supplemental revenues for fiscal years 2006, 2007, and 2008.

- Discussing the results of the revenue summaries with chief financial officers at each college and university. In addition, we discussed the type of policies and procedures that each institution had in place over these types of revenues.

Internal Auditing provided a preliminary report to the Board of Trustees in May 2009 on the results of Phase I.

As a result of the discussion with the Board of Trustees on Phase I, Internal Auditing focused Phase II of the project on three supplemental revenues operations:

- Bookstore Operations
- Student Health Service Operations
- Academic Resale Operations

Internal Auditing conducted fieldwork for Phase 2 from June 2009 - August 2009 at selected colleges and universities. Sections III – V of this report discuss each area in detail.

Section II: Auxiliary and Supplemental Revenue Sources – Phase I

Auxiliary and supplemental revenue sources at colleges and universities make up a relatively small percentage of overall revenues for the institutions. We found that the main focus at each institution is on their academic mission. We also found that colleges and universities in general had limited policies and procedures in place relating to auxiliary and supplemental revenues.

Data Analysis Methodology

The analysis focused on identifying auxiliary and supplemental revenues in fiscal year 2006 – 2008 at each college and university. The analysis did not take cost of goods sold into account. We excluded the following revenues from our analysis: tuition and most fees, revenue fund activity, customized training, and grants.

A standard methodology was used to classify revenues at each college and university into four distinct categories, which included:

- **Enterprise Activities –** bookstore, camps, childcare, computer store, health services, laptop rentals, parking, student housing (non-revenue fund), food service/vending, and other.
- **Supplemental Academic Program Revenue –** academic program resale, personal property service charges, study abroad programs, and other.
- **Leveraged Asset Capacity –** facilities rental, service center revenue, interest (excluding revenue fund), sale (loss) of assets, and other.
- **Event Revenue –** athletics, fine art performances, intramural sports (includes recreation centers), student organizations or clubs and special events, and other.

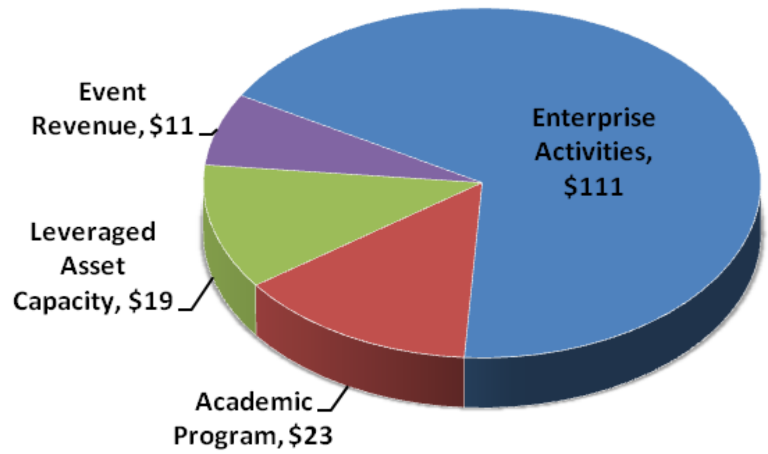
Colleges and universities had varying practices on how activities were managed and how revenues were accounted for which can make revenue comparisons difficult between institutions. For example, some institutions collect study abroad program revenues directly while others may have students pay a third party.

Significant Revenues

Colleges and universities process approximately $1 billion in revenue transactions each year. In 2008, auxiliary and supplemental revenues accounted for approximately $164[1] million of those revenues. Figure 1 shows revenues by category for fiscal year 2008. As shown in figure 1, the largest category was enterprise activities at $111 million, with bookstores representing the largest operation. Appendix B includes a detailed summary of 2008 auxiliary and supplemental revenue sources.

[1] Our preliminary report in May 2009 discussed an auxiliary and supplemental revenue total of $167 million for 2008. As discussed in Section V, additional analysis of academic program resale activity determined some revenues should have been excluded from the total.

Figure 1: Summary of Auxiliary and Supplemental Revenue Categories Fiscal Year 2008 (shown in millions)



Source: Internal Auditing analysis of ISRS data.

Policies and Procedures

System procedure requires colleges and universities to have specific policies in place over auxiliary revenues. The required procedures include:

- Procedure 7.3.4, Part 2, B - Budget Setting Principles
- Procedure 7.6.1, Part 3 - Competition
- Procedure 7.3.2, Part 7 - Multi-year Business Plans
- Procedure 7.3.4 – Indirect Cost Allocation

We asked chief financial officers whether they had formal policies and procedures in place over auxiliary and supplemental revenues. The majority of institutions had not formalized policies.

Section III: Bookstore Operations

The Minnesota State Colleges and Universities system (MnSCU) has 54 campus bookstores in operation. As shown in Table 1, most institutions operate their own bookstores. Seven institutions, however, outsource bookstore operations to a contracted vendor. While most of the universities outsource their bookstore, only two colleges outsource their operations as shown in Table 1. One college began outsourcing a few years ago; the other institutions have outsourced their bookstore operations for decades.

Table 1: Bookstore Arrangements – Fiscal Year 2008

Institution Type	Operate	Outsource
Colleges (1)	28	2
Universities	2	5
Total	30	7

(1) Some multi-campus colleges operated more than one bookstore. The 28 colleges managed bookstores at 45 different sites.

The five outsourcing universities contract with national, widely-known bookstore companies. Anoka Technical contracts with a company that provides a virtual bookstore – all sales are done on-line. Alexandria Technical College's bookstore is run by the Alexandria Technical College Foundation. The Alexandria Technical College Foundation bookstore is located adjacent to the campus in a foundation-owned building; it sells textbooks and computer software. Alexandria Technical College also operates a store on campus that sells college logo merchandise, academic program uniforms and general supply merchandise. Table 2 illustrates the contracting arrangements currently in place.

Table 2: Current Outsourced Bookstore Contract Terms

Institution	Contractor	Contract End Date	Renewal Options
Alexandria Technical College	College Foundation	6/30/10	Standard annual contract with Foundation
Anoka Technical College	eCampus.com	6/5/10	3 years + option to renew 2 additional years
Bemidji State University	Barnes & Noble College Booksellers, Inc.	4/30/11	No renewal options remain for current contract
Metropolitan State University	Follett Higher Education Group	In negotiation	Not applicable
Minnesota State University, Mankato	Barnes & Noble College Booksellers, Inc.	6/30/11	2 years + option for one 2 year renewal
Southwest Minnesota State University	Barnes & Noble College Booksellers, Inc.	6/30/13	No renewal options remain for current contract
St. Cloud State University	Follett Higher Education Group	6/30/11	No renewal options remain for current contract

Source: Internal Auditing analysis of bookstore contracts.

Scope of Testing

We selected 16 bookstore operations for detailed testing, including six outsourcing arrangements. For each bookstore operation we gained an understanding of key business decisions, such as pricing, financial measurements, financial planning, and examined fiscal controls for areas such as cash collections and purchasing.

In this chapter, we report on the more strategic issues that may be of interest to the Board of Trustees, e.g., profitability, financial planning, decisions on outsourcing, and policy compliance. More detailed results regarding each college and university will be reported to presidents for their consideration.

Profitability of Bookstore Operations

As shown in Table 3, the 47 bookstores operated by MnSCU colleges and universities generated $62 million of gross revenues in fiscal year 2008 from sales of items such as textbooks, logo merchandise, supplies, gift merchandise, candy and other miscellaneous items such as stamps or greeting cards. The seven institutions that outsourced bookstore operations earned another $1.6 million in commission revenue.

Table 3: Bookstore Financial Results – Fiscal Year 2008

	College Operated	University Operated	College Outsourced	University Outsourced
Gross Sales	$52,609,453	$9,264,138		
Less: Cost of Goods Sold	(39,359,303)	(6,560,304)		
Gross Margin	$13,250,150	$2,703,834	$123,616	$1,469,302
Less: Operating Expenses (1)	(9,243,708)	(1,437,742)	0	(413,083)
Net Income	$4,006,442	1,266,092	$123,616	1,056,219

(1) For operated bookstores, operating expenses exclude financial aid and transfers out. For outsourced university bookstores, operating expenses may include actual or estimated space rental for the use of university facilities.

Source: Internal Auditing analysis of Financial Reporting data.

The system-wide net income of $6.5 million reported from bookstore operations in fiscal year 2008 was reasonable compared to national metrics. Although some constituents, especially students, may urge bookstores to operate on a break even basis, prudent business practices suggest that bookstores be managed to generate a modest profit. Colleges and universities do not have the resources to supplement bookstore operations from other sources and cannot risk unanticipated losses. Furthermore, bookstores do not have borrowing capacity and need to finance their own capital improvements over time from accumulated profits. It is fair, though, to expect that bookstore profits be modest. Tables 4 and 5 compare the financial results for the bookstores operated by colleges and universities to their counterparts nationally.

Table 4: College-Operated Bookstore Compared to National Metrics
Fiscal Year 2008

	MnSCU Colleges		National Metrics (1)	
	Per FYE	% of Sales	Per FYE	% of Sales
Gross Sales	$649	100%	$660	100%
Less: Cost of Goods Sold	(486)	74.8%	(484)	73.4%
Gross Margin	$163	25.2%	$176	26.6%
Less: Operating Expenses (1)	(114)	17.6%	(118)	17.9%
Net Income	$49	7.6%	$58	8.4%

Source (1): National Association of College Stores Survey of FY 2008 median financial results for two-year colleges. Note that statistics derived from medians may represent different institutions, resulting in columns not added up to 100%

Table 5: University-Operated Bookstores Compared to National Metrics
Fiscal Year 2008

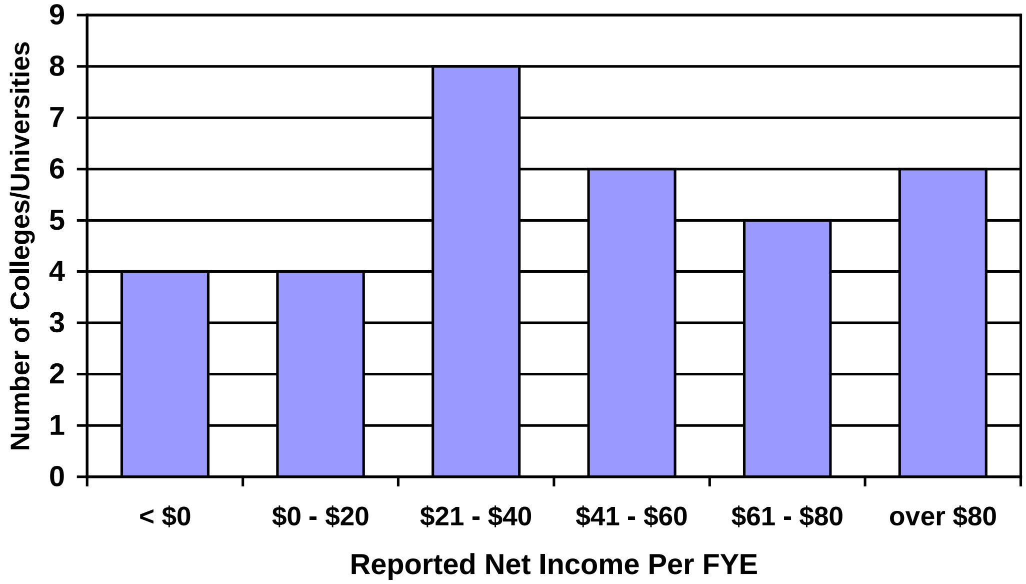
	MnSCU Universities		National Metrics (1)	
	Per FYE	% of Sales	Per FYE	% of Sales
Gross Sales	$638	100%	$729	100%
Less: Cost of Goods Sold	(452)	70.8%	(531)	72.8%
Gross Margin	$186	29.2%	$198	27.2%
Less: Operating Expenses (1)	(99)	15.5%	(161)	21.1%
Net Income	$87 (2)	13.7%	$36	4.7%

Source (1): National Association of College Stores Survey of FY 2008 median financial results for universities. Note that statistics derived from medians may represent different institutions, resulting in columns not added up to 100%

(2) In FY 2008, MSU, Moorhead rebated $39 per full year equivalents (FYE) back to students and Winona State University contributed approximately $50 per FYE to scholarships.

As shown in Figure 2, considerable variability exists in the financial results reported for bookstores at individual institutions. Some of this variability, though, may be caused by poor financial reporting practices. We noted that institutions that operated their bookstores did not always account for all associated expenses. Also, some institutions accounted for their bookstore operations on a cash basis and did not prepare accrual based financial statements. The lack of discipline associated with preparing bookstore financial statements across the system was disappointing. Some of the more notable financial reporting problems, included:

Figure 2: Variability of Net Income Earned by Bookstores
Fiscal Year 2008



Source: Internal Auditing analysis of bookstore financial statements.

- **Reliance on Cash Basis Financials**: We found a tendency for colleges and universities to rely on budgetary or a cash basis rather than full accrual financial statements. Bookstores operated on a budget year basis: comparing revenues brought in over the budget year to expenses made during the same budget year to determine if a profit was earned. A full accrual method would instead match revenues to expenses, particularly cost of goods sold, in the period the revenue was earned. Although the cash basis of accounting will allow the institution to see the actual cash balance for a period of time, determining longer-term profitability may be more difficult because institutions are not matching revenue with expenses. We found a general lack of recognition by staff of their accrual based bookstore financial statement information; in addition, some institutions were unable to explain large fluctuations in revenues.

- **Indirect Costs**: MnSCU Procedure 7.3.2 requires institutions to allocate both direct and indirect costs to auxiliary operations. However, it does not require institutions to charge the costs. Indirect costs are not directly attributable to the operation, but benefit the operation such as cost associated with custodial, human resources, business office, information technology, parking, campus security and depreciation. An allocation of indirect costs records an expense and an off-setting subsidy in which another funding source covers the expense, typically the general fund. Therefore, an allocation does not impact the bookstore operation's profit margin unless the subsidy and allocation amounts do not match. We reviewed 10 institutionally operated bookstores. Only three institutions 'charged' indirect costs to their bookstore operations in fiscal year 2008. An additional three institutions allocated indirect costs to their bookstore operation.

We also analyzed system-wide data for indirect costs. As illustrated in Table 6, only six institutions charged indirect costs. According to our analysis, 13 institutions were not in compliance with MnSCU Procedure 7.3.2 since they did not allocate indirect costs to their bookstore operation in fiscal year 2008. The remaining 11 institutions allocated indirect costs, with some appearing to charge indirect expenses because a subsidy was not readily apparent. We did not analyze amounts allocated or charged for reasonableness.

- **Student Help**: Student workers can be paid from state or federal work-study funds or institutional funds. Seven colleges indicated they utilized work-study funds to pay student workers. To track work-study funds, institutions pay from earmarked accounts; therefore, these expenses were not reflected in bookstore operating expenses.

Table 6: Indirect Costs Charged for Fiscal Year 2008

	# of Institutions (1)
Neither Allocated or Charged Indirect Costs	13
Allocated Indirect Costs	11
Charged Indirect Costs	6
Outsourced – Not Applicable	7
Total	37

Source: Internal Auditing analysis of ISRS accounting data.
(1) Determination based on transactions occurring between 7/1/07 and 6/30/08.

Recommendation

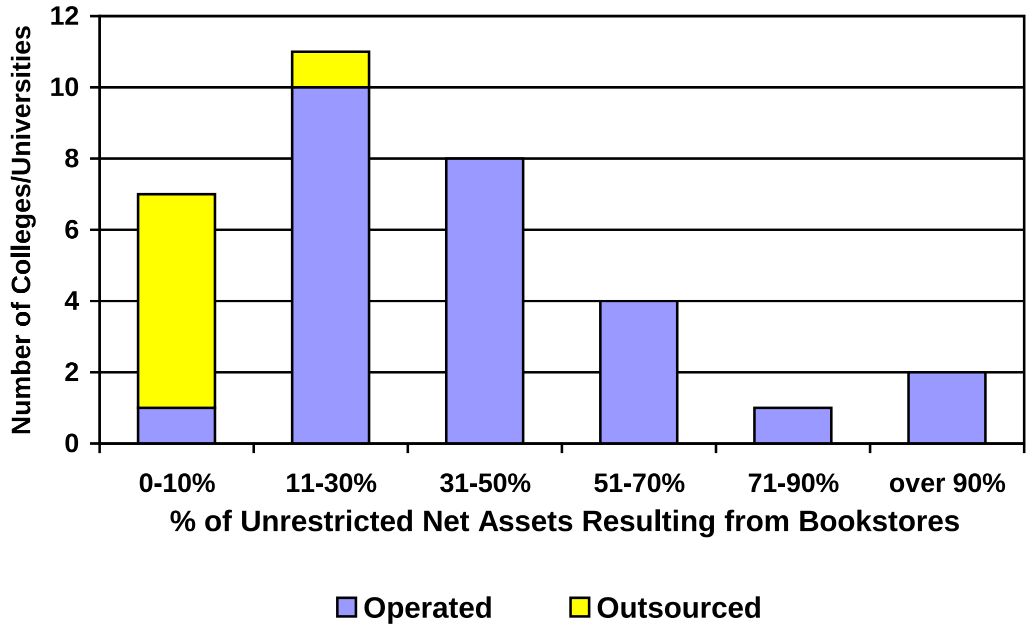
- *Colleges and universities must improve their financial reporting practices for bookstore operations so that they are able to assess financial results and implement financial plans with better information.*

Financial Planning for the Use of Bookstore Resources

Although we found that generally colleges and universities had generated reasonable profit margins, the profits had accumulated to over $45 million in unrestricted net assets in fiscal year 2008. We noted insufficient financial planning consideration for the use of profits. Bookstore operations may serve as a strategic financial resource. There have been a few instances where bookstore profits have been used to help finance projects that otherwise may not have been possible, such as construction of the student center at Normandale Community College. Many colleges and universities mistakenly, though, assume that bookstore profits may only be used for student scholarships. The current system procedure governing the financial management of bookstores fails to provide adequate guidance, and is largely disregarded.

The $45 million in unrestricted net assets attributable to bookstores, on average, represented 23% of total unrestricted net assets. As shown in Figure 3, though, the significance that bookstores accounted for unrestricted net assets varied considerably across the system. For seven colleges, the unrestricted net assets attributable to their bookstores accounted for over 50% of their unrestricted net asset balances. Although poor financial reporting practices suggest that these amounts are overstated somewhat, bookstore operations provide a substantial resource to the colleges and universities. Despite their significance, we found a general lack of financial planning associated with bookstores.

Figure 3: Significance of Fiscal Year 2008 Bookstore Unrestricted Net Assets



Source: Internal Auditing analysis of bookstore and college and university financial statements.

MnSCU System Procedure 7.3.2, Subpart C (1) provides the following guidance for establishing reserves for enterprise funds, like bookstores:

> It is recommended that net assets designated as reserves equal 30% of the prior year's operating expenses except for enterprises whose primary revenue source is student fees. Any net assets accumulation exceeding 30% of the prior year's operating expenses must be approved by the president.

This guideline, though, does not anticipate the cash flow needs for bookstores that need to make sizable purchases of textbooks twice per year. Also, it is unclear whether the measurement should be against only operating expenses or operating expenses plus cost of goods sold. If operating expenses are the basis for the measurement, then bookstores are far out of compliance because unrestricted net assets represent about 400% of annual operating expenses. If cost of goods sold is included in the measurement, then unrestricted net assets still represent about 80% of those expenses. Finally, we found little awareness of the system procedure at the colleges and universities we visited.

System Procedure 7.3.2, Part 5, Subpart C (4) and (5) offer the following additional guidance for managing net assets beyond the 30% limit:

4. Any net assets accumulations in excess of the <recommended> levels must be clearly linked to specific programming and operating needs, such as student scholarships, establishing a quasi-endowment, or planned capital expenditures.

5. Except as provided in 4 above, funds in excess of recommended levels should be used to reduce fees and charges in the next year's operating budget, or where appropriate, to address rate variation expected to occur over the next several operating budgets.

Again, we found a general lack of financial planning to support the unrestricted net asset balances in place and little awareness of the system procedure for using net assets beyond the recommended limit.

Recommendations

- *The provisions of System Procedure 7.3.2 that limits the size and use of bookstore unrestricted net assets should be reviewed and revised as warranted.*

- *Colleges and universities need to develop financial plans for using profits generated from bookstore operations.*

Deciding to Outsource or Operate Bookstores

Another planning dimension that deserves additional consideration, particularly for the state universities, is whether to operate or outsource the bookstore. We found that the colleges and universities conducted very limited analyses in recent years to support their decisions to continue operating or outsourcing bookstores. The current arrangements are the result of decisions made decades ago and have not been seriously revisited in recent years. The two state universities that operate their own bookstores appear to accrue greater financial benefits than the five state universities that outsource their bookstores. The prospects of replicating the operational success of these two universities at the other universities, are uncertain, and need careful analysis.

Undoubtedly, operating a bookstore introduces additional risks and challenges. The universities with outsourced bookstores, including the two largest universities in the system, cited the need for specialized expertise to run a successful retail operation and believed that such expertise could best be acquired through outsourcing with a company whose niche was retail operations. They also thought that contractors could provide better marketing and pay lower labor costs. Furthermore, administrators at those universities were freed from the obligations and distractions of operating a bookstore and could concentrate their energy on core educational activities.

The universities and colleges that operated their own bookstores agreed with the need for specialized expertise, but thought they could hire employees who possessed the requisite retail skills and experience. They recognized that in operating their own bookstores they had to tend to additional administrative matters, such as installing a bookstore management system, hiring employees, remodeling space, and attending to the security of their goods. They believed, though, that they understood students needs better and could earn a higher rate of return than by outsourcing. Accordingly, they thought that the additional rewards outweighed the operational risks.

Comparing the financial results of the two state universities that operated bookstores to the five universities that outsourced bookstores shows that the university-operated bookstores generated significantly higher profits. The net commission revenues generated by the five state universities ranged from $25 to $33 per FYE and were close to the median amount of $36 per FYE shown by other U.S. public universities (See Table 5). These net commission revenues were far short of the average of $87 per FYE generated by the two MnSCU state universities which operated their own bookstores or the average of $49 per FYE generated by the 45 bookstores operated by the two-year colleges in the system.

Finally, it is worth noting, we did not find any evidence that the profitability of the two bookstores operated by state universities results from charging excess prices to students. We observed fairly standard practices for pricing textbooks across the system. Comparing actual textbook prices is difficult because variances in course curriculums often result in different required textbooks for comparable courses. We were able to compare the prices charged for a few book titles that were sold by both the outsourced and the operated university bookstores. In those few cases, the prices charged by the university run bookstores were, in fact, lower than the prices charged by the outsourced bookstores. A more likely explanation for the profitability of the two university-operated bookstores is that they were managed by long-time, experienced retail managers and did not face some of the expenses incurred by the corporate entities that managed the outsourced bookstores.

Recommendation

- *The state universities should undertake a collaborative study to assess the value of operating versus outsourcing their bookstores.*

Other Operational Challenges Associated with Bookstores

There are various operational challenges associated with bookstores whether or not an institution operates or outsources its bookstore operation.

➢ Student Service Challenges

- **Financial Aid**: All 16 operations we reviewed (outsourced and operated) had procedures in place that allowed students receiving financial aid to purchase on account at the bookstore. All bookstore management systems are separate from MnSCU's Integrated Student Records System's (ISRS). This requires each institution to develop procedures for determining which students are eligible to make purchases on account. In some cases, these procedures are labor intensive for both bookstore staff and students. Some institutions developed automated down-loads of data. One institution operating a bookstore gave their employees access to query the data in ISRS. Notably, Winona has a program to loan all registered students $800 per semester for books, regardless of financial aid eligibility.

- **On-line Book Purchasing**: On-line shopping allows students to shop from home and generally avoid long lines. We noted a range of on-line offerings among the institutions reviewed. For example, Hibbing Community College does not have any on-line[2] book sales, Normandale Community College indicated a large percentage of its sales are on-line and Anoka Technical College sells all books via on-line (the contracted bookstore does not have a physical presence on its campus). Ridgewater College indicated it was considering working with a vendor to facilitate on-line buy-backs at semester end.

- **Customer Service Considerations**: Bookstores have a variety of practices in place to ensure customer satisfaction. Institutions outsourcing to Barnes & Noble College Bookseller, Inc. indicated that the company has its own secret shoppers to monitor customer service in their stores. We noted some institutions had not developed clear procedures for students to follow when there are complaints.

➢ **Operating Inefficiencies:**

- **Bookstore Management Systems**: These systems help automate bookstore processes including monitoring inventory levels. We noted different systems in place; however, one college reviewed did not have a bookstore management system. Although costly, not having a system requires additional manual work for determining daily sales by category-type (food, new textbooks, used textbooks, etc.), monitoring inventory levels for re-ordering and for determining change in inventory at year-end.

  Lack of integration between ISRS and bookstore management systems result in additional work for institutions. Three areas we noted include:

  - Accounting Module: Because the two systems do not interface, all daily sale totals must be entered into the ISRS accounting module at the object code level (food, new textbooks, used textbooks, etc.) to track sales revenue and cost of goods sold. In addition, at year-end, the change in inventory by object code must be calculated and manually entered into the accounting module.

  - Credit memo processing: Vendor credit memos are common-place in bookstore operations. Credit memos are issued by vendors for textbook returns and are often substantial dollar amounts. Often, bookstores managers enter credit memos in their bookstore management system when they are ordering and receiving. Then, credit memos are turned over to business offices for entry or use when payments are made to the vendor causing duplicate entry of the credit memo.

  - Financial Aid and Accounts Receivable: these two modules do not interface with bookstore management systems. As discussed earlier, both the operated and outsourced bookstores developed procedures to allow financial aid recipients to charge at the bookstore. Although a few institutions may have developed methods to upload data into their bookstore management system, the business

[2] Book lists are available on-line and students can call in a book order and the college bookstore will ship the books to the student.

office typically needs to manually enter bookstore charges to the student account. If outsourcing, the institution must manually pay the contractor.

While integrating ISRS with bookstore management systems would help increase efficiencies in some areas, the cost of integrating the systems needs to be weighed against other competing demands for limited information technology resources.

- **Managing Book Sales**: In an effort to limit shoplifting, some institutions do not allow students to select their textbooks; instead bookstore staff will obtain a class schedule and select the required textbooks, including used books. Metropolitan area bookstores, in particular, have been targets of shoplifting rings. While all bookstores we visited appeared to have some measures in place to limit shoplifting, additional measures have been taken to further reduce shoplifting in the metro areas such as installing video surveillance or electronic article surveillance and circulating photos of suspects. In addition, in an effort to reduce lines, some bookstores have on-line sales or allow students to pre-order their textbooks, including used books. While this may limit shoplifting or reduce check-out lines, institutions are likely paying for these practices through increased labor costs.

➢ **Legal Compliance Challenges**

We noted some compliance issues related to a board policy requirement. In addition, institutions need to meet requirements of new legislation for textbooks.

- Board Policy 5.14 related to procurement and contracting:
  - We reviewed three contracts where the original term was for five-years with the option to renew for an additional five-years. The three institutions renewed the contracts resulting in the contracts being in place for ten years. Board policy requires institutions to seek approval from the Office of the Chancellor for contracts exceeding five years. Discussions with the institutions indicated that they did not believe the provision applied to income contracts.
  - We noted St. Cloud State University did not obtain pre-approval by the Board of Trustees where the commission revenue received for the second five year period will likely exceed $2,000,000.
- New federal and state laws have recently been passed related to textbooks that will effect MnSCU institutions.
  - In 2007, Minnesota law was passed urging faculty and bookstores to work together prior to placing orders for course materials. The law urges faculty to inform bookstores of their requirements so bookstores may obtain information (edition, price, alternative formats, etc.) which faculty can consider before placing their order. The law further urges bookstores to provide notification of course materials to students at least 15 days prior to the commencement of the term.

    - In August 2008, federal legislation was passed requiring institutions that receive federal financial aid to comply with the provisions related to textbook information. Similar to MN law, faculty members are urged to make course textbook selections timely. However, the federal law requires institutions to include required course material information, including the International Standard Book Number and retail price, in course schedules. Course schedules are often done months prior to the start of a term.

  During some of our interviews, the administrators lamented the difficulty of obtaining timely orders from certain faculty members.

- Payment Card Industry Data Security Standards (PCI DSS) are contractual requirements that impact both operated and outsourced bookstores if they accept credit cards. The majority of , if not all, bookstore operations accepted credit cards as a form of payment.

Recommendation

- *The Office of the Chancellor needs to work with institutions to provide awareness that Policy 5.14 applies to income contracts. In addition, universities need to work with the Office of the Chancellor to remedy any current contract issues.*

Section IV: Student Health Service Operations

Student health service operations generated approximately $7.6 million in revenue in fiscal year 2008. Revenues are primarily generated through student health service fees and fee for services when students (patients) use clinic operations. Board Policy 5.11 allows colleges and universities to charge a student health service fee as long as it does not exceed the maximum amount approved by the board, currently set at $65 a semester. Table 7 summarizes fiscal year 2008 revenues.

Table 7: Summary of Student Health Related Revenues for Fiscal Year 2008

	# of institutions with revenues	Health Service Fees	Patient Charges	Other
Universities	6	$4,646,000	$2,039,000	$279,000
Colleges	11	$576,000	$11,000	$26,000

Source: Internal Auditing analysis of ISRS accounting data.

The types of services offered by health service operations vary across colleges and universities. We found six universities and three colleges that operated health service clinics. Services ranged significantly depending on the clinic. We also found several other colleges that employed a nurse to provide health education and awareness services. A national group of health care professionals[3] completed a study in 2009 of student health care and student health insurance. The study included a summary of components that could be included in a college or university healthcare program, the summary is included in Figure 4. Of the components defined in Figure 1, our review found, depending on the institution, varying degrees of these types of activities occurring within the system.

Health center directors emphasized the importance of both physical and mental student health care and health promotion. They stressed the relationship that student health services have on student retention and academic success. One director stated that "they are not just about student health care they are also about student retention".

Review Methodology

We visited each university and two colleges that operated health service clinics to gain an understanding of each operation, including services offered, outsourced operations, fees charged and internal controls. We also selected a sample of colleges to discuss the use of their health service fee and information provided to students relating to health insurance.

[3] The Lookout Mountain Group is a non-partisan study group of college health professionals. The group is considering the needs of the college student population under various federal and state health care reform models.

Figure 4: Components of a College or University Health Program

Public Health Services – These involve culturally competent, data-based and theory-driven universal or primary prevention to reduce risk and enhance health while advancing student learning outcomes and the academic environment. Particular strategies, including policies, will be determined by the health status of the student population on a specific campus.

Health Promotion Services – This includes direct clinical services such as routine women's health services, as well as broad primary prevention at the population level to address such issues as campus violence, alcohol and tobacco use, exercise, and nutrition.

Clinical Services – These involve, at a minimum, arrangements for primary and urgent care clinical services which facilitate appropriate student access. Services for radiology, laboratory, pharmacy, sports medicine / physical therapy, and other ancillary services are routinely provided.

Mental Health Services – These involve crisis and short-term intervention services to address common mental health issues for students. Long-term care needs are identified and are generally referred to community providers (integration of community providers with SHIBPs benefits is increasingly important). Many college health programs provide consultation and outreach services to assist faculty/staff, resident hall advisors, and others in identifying and assisting distressed students.

Student Health Insurance/Benefits Programs (SHIBPs) – Most colleges and universities offer a SHIBP that provides coverage for clinical and mental health services not provided through on-campus services.

Additional Components – College health programs often have responsibility for a variety of health and wellness services including recreation, sports, and fitness programs. Responsibility for distinct sub-populations may include sports medicine and athletic training services for intercollegiate athletics, services for students with disabilities, sexual assault advocacy services, services for faculty and staff, special services for international students and students studying abroad, and dedicated clinics for care of children.

Source: Lookout Mountain Group, "Analysis and Policy Recommendations for Providing Health Insurance and Health Care Services for the College Student Population", June 2009.

Minnesota Requirements for Student Health Service Operations

Minnesota state law has specific requirements related to student health services. Minnesota Statute 136F.20 subdivision 1, which dates back to 1995, states:

> *The board shall offer health services for students at each state university and may offer health services for students at each state college. The health services may be offered either on campus or in the nearby community. The board may charge each student a health service fee set by the board. The fees shall be used to maintain the health service and equip and construct facilities. The fee may be used to contract for health, medical, and hospitalization insurance for students. The fees shall be deposited in an activity fund and are annually appropriated to the board for the purposes of this subdivision. Each state college and university shall provide an annual financial accounting of the health service money to the board.*

We did note one area where it is unclear whether the intent of the law is being met. Metropolitan State University (Metropolitan) does not operate a student health service clinic, while the other six state universities do. Metropolitan is unique in that it does not have a residential campus.

However, the statute does not allow an exception for this. The statute is specific that all state universities are to offer health services to students. MnSCU does have a relationship with the University of Minnesota's Boynton Health Service that allows Metropolitan students, as well as other MnSCU students, who purchase the system's endorsed student accident and illness insurance, to access services through Boynton Health Service. It is questionable whether this relationship meets the intent of the law. We also found that the statute requires an annual accounting of health service money to the board, which has not been done.

Recommendations

- *Metropolitan State University should work with the Office of the Chancellor to determine whether the current relationship with the University of Minnesota meets the intent of the law. If not, a decision should be made on whether to seek a law change to exempt the university from offering health services or develop a plan to begin offering health services to students.*

- *The Office of the Chancellor should provide an annual accounting of health service moneys to the board, as required by state statue.*

Variance in Student Health Service Operations

Six universities and three colleges operate student health service clinics. We found a wide variation in services offered. The college operations employ nurses to provide minimal testing and patient services, in comparison to larger state university operations, which employ physicians, pharmacists and lab technicians. In addition, there is a wide variation of health service facilities. One university is in the process of building a new health and wellness facility; while another university has a less than optimal facility. We also found variability in how health service operations were funded.

Board policy and system procedure are silent related to student health service operations. In addition, the Office of the Chancellor was able to provide limited guidance related to student health service operations. Thus, individual colleges and universities have flexibility in determining what, if any, health services are offered to students.

- **Clinic Services**: Most university health service clinics provided or offered services to students enrolled at other colleges in close proximity to the clinic (e.g. St. Cloud State University Student Health Services has an arrangement in place to offer services to St. Cloud Technical College students). In addition, other colleges, which charged a student health service fee, had a nurse on staff that primarily focused on student health promotion services.

  Health service clinic operations varied by location, some had physicians and pharmacists on staff while others outsourced or didn't offer these services. In addition, some clinics had lab services offered on site. Table 8 provides an approximate number of office visits and prescriptions filled at student health service clinics.

Table 8: College and University Health Service Clinics Visited (1)
Approximate Number of Health Services Offered Annually

Institution	**Office Visits**	**Prescriptions Filled**	**FY 2008 Student Headcount** (2)
Bemidji State University	3,500	1,400	6,568
Century College	2,200	n/a	12,370
MSU Moorhead	4,700	2,600	8,880
MSU, Mankato	16,600	8,700	16,882
Rochester Community and Technical	1,200	n/a	7,517
Southwest Minnesota State University	2,100	200	7,777
St. Cloud State University	9,100	12,100	20,506
Winona State University	7,000	4,500	9,393

Source: Information provided by College and University health service clinic directors.
(1) We did not review Inver Hills Community College health service operation.
(2) Per data management reports from the Information Technology Division website.

- **Mental Health Services**: Discussions with health service directors indicate that mental health services are in a state of change. Two state universities just placed counseling services under the student health service operation for fiscal year 2010. In other universities, counseling remains under academic affairs. A few state universities contract for a psychiatrist to come on site for a few hours a week to treat the most acute cases.

  In April 2009, a task force commissioned by Senior Vice Chancellor Linda Baer completed a report on mental health. Some excerpts from the report include:

  - Student mental health issues have drawn heightened national attention, with colleges and universities reporting unprecedented numbers of students in psychological distress.
  - Here in Minnesota, recent data from the 2008 College Student Health Survey Report conducted by Boynton Health Services at the University of Minnesota indicates that 24% of students report having been given a diagnosis of depression and 18% a diagnosis of anxiety within their lifetime.
  - Students at the Minnesota State Colleges and Universities sometimes are unable to obtain mental health services due to a lack of insurance.
  - The task force concluded that mental health trends visible nationally are present at system campuses. The task force urged the Minnesota State Colleges and Universities to take action that ensures its campuses can create healthful learning environments.

- **Clinic Accreditation**: Four of the state university health clinics are accredited by the Accreditation Association for Ambulatory Health Care (AAAHC). Accreditation from AAAHC ensures that best practices in health care are being followed. It also helps assure patients that the clinic meets nationally-recognized standards of health care. In addition, three state university health clinic labs are accredited by the Commission of Office Laboratory Assessment (COLA).

COLA is an independent, non-profit accreditor whose standards enable clinical laboratories to meet U.S. CLIA[4] and other regulatory requirements.

A recommendation from the Lookout Mountain Group's June 2009[5] report stated:

> *College health programs must be required to meet minimum standards for providing quality health care services. There must be a commitment to accreditation, use of evidence-based practices, outcomes assessments, and other systems to assure quality of care. Requirements for use of electronic health records systems may be integral to long-term control of costs and to provide high quality care. Students should be served by community health care systems and health insurance program if the college or university they attend cannot provide a program that meets minimum standards.*

- **Clinic Facilities:** We noted varying arrangements for clinic facilities at each institution. Winona State University is in the process of building an integrated wellness complex that will house the student health services clinic. Minnesota State University Moorhead's facility is located in a building adjacent to the campus that is owned by the foundation. St. Cloud State University's health service clinic is located on the first floor of a resident hall and was not designed as a clinic operation.

- **Funding Sources**: Funding college and university student health operations varied. Some operations relied primarily on the per credit health service fee to cover the cost of general office visits, while others also charged a predetermined fee for general office visits. For those clinics that operate a lab and pharmacy, students were charged varying fees depending on the tests completed or prescriptions filled. In addition, some operations relied on other funding to fund or supplement the operations. For example, one state university funded a dietician with general fund dollars. In other cases, indirect costs may not have been charged, resulting in the general fund helping support the operation. Health clinic directors told us that the supplemental funding streams are dwindling due to the economic times. Table 9 provides a summary of how college and university health service clinics are funded.

  We found inconsistency across the system in whether health service operations billed third parties (e.g. health insurance providers). For those that do bill, billing is completed by university staff, not outsourced. In the past year, both Texas and Florida legislatures have looked at legislation to require student health service operations to bill students' insurance companies for care they receive.

  We also found varying practices in how students were billed for services. Some health service clinics entered and tracked student charges on the Accounts Receivable module within the Integrated Student Records System (ISRS) at the time of services. Others waited until health insurance billing was determined and then would enter charges. Still others would only enter transactions in ISRS when the student's account was determined uncollectable by the health service clinic.

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[4] Congress passed the Clinical Laboratory Improvement Amendments (CLIA) in 1988 establishing quality standards for all laboratory testing to ensure the accuracy, reliability and timeliness of patient test results regardless of where the test was performed.

[5] Lookout Mountain Group, "Analysis and Policy Recommendations for Providing Health Insurance and Health Care Services for the College Student Population", June 2009.

Table 9: Summary of Health Service Clinic Operation Funding Fiscal Year 2008

Institution	Health Service Fee	Fee for Office Visit	Other Charges	Bill Insurance Companies	Indirect Costs Charged	Other Funding
Bemidji State University	$41.77 per semester	$0	Charges for some services, labs and pharmacy	Yes	No	Contract with Oak Hill Christian College students charged $48 per semester. Northwest Technical College – Bemidji students charged $48 per semester, if use clinic.
Century College	none	$0	$7 for Mantoux test	No	No	Funding from student life activity fee and reimbursement from school district.
MSU Moorhead	$5.00 per credit	$0	Charges for labs and pharmacy	Yes	No(1)	$800 from general fund for mailing costs.
MSU, Mankato	$4.18 per credit	$20	Charges for labs and pharmacy	Yes	No – directly pay for costs	South Central students pay $30 for office visits. General fund funded dietician, psychiatric services. Some grant funding.
Rochester Community and Technical	$.85 per credit	$0	$5 for Mantoux tests and $15 for physical exams	No	No	$5,000 a year from Winona State.
Southwest Minnesota State University	$3.70 per credit	$0	Varies based on services and lab tests performed.	No	Approx. $10,000 per year	
St. Cloud State University	$4.22 per credit	$20	Charges for labs and pharmacy	Yes	Yes, 5% of expenses	Some small grants.
Winona State University	$3.30 per credit	$0	Charges for some services, labs and pharmacy	No (2)	Yes, 44% of one FTE	Two small grants. Contract with Southeast Tech. to provide services to their Winona campus students.

(1) Indirect charges were allocated, not charged.
(2) The university does bill charges to the system endorsed insurance company.

Recommendation

- *The Board of Trustees should consider whether policy guidance is warranted over student health service operations. Minnesota Statute requires the board to offer health services at the state universities and states that it may offer services at the colleges. Policy considerations could include:*

  - *Minimum services that should be offered or outsourced*
  - *Mental health service operations*
  - *Accreditation requirements*
  - *Operation funding – including student fees and user charges*

Liability and Malpractice Insurance

All MnSCU colleges and universities have general liability insurance through the State of Minnesota's Risk Management Fund. All institutions also have medical professional liability insurance for student interns. This coverage protects MnSCU against claims arising from real or alleged errors or omissions in the course of the professional liability activities of students and the faculty who instruct and supervise the students.

Colleges and universities have the option to purchase healthcare facilities medical professional liability insurance through the Risk Management Division of the State of Minnesota's Department of Administration. We found a general lack of understanding and knowledge of this policy with staff in the Office of the Chancellor. We also found that not all colleges with health service clinic operations have purchased the coverage.

Board policy 5.16 on risk management and insurance does not specifically address insurance requirements for health service operations.

Recommendation

- *The Board of Trustees should consider whether board policy 5.16 should be broadened to address medical professional liability insurance.*

Student Health Insurance Requirements

There is wide variation on requirements pertaining to student health insurance. Minnesota State University (MSU) Moorhead began a pilot program in the fall of 2008 that requires all students enrolled in six or more credits to have health insurance. System procedure requires international students to purchase a system-endorsed insurance policy. There is also variability on whether institutions require athletes or students in specific academic programs to have health insurance. Finally, information on college and university websites is inconsistent related to student health insurance.

The topic of health insurance is currently getting national attention. Questions related to student health insurance are also getting attention.

- Are students uninsured or underinsured?
- Should college and universities mandate health insurance in order to enroll?
- Given the economic times, does it make sense to increase a student's cost of attendance for a health insurance premium?

In 2008, thirteen MnSCU institutions were involved in a survey conducted by the University of Minnesota Boynton Health Services on student health insurance. The survey found a difference between colleges and universities with students at colleges having an uninsured rate of 14% while university students were uninsured at a lower rate, 11.7%. Another recent study conducted at three MnSCU universities, using the American College Health Association (ACHA)[6] National College Health Assessment survey, suggested that 81.9% of the students knew they were insured while 8.6% didn't know whether they were insured. This leaves an uninsured rate no lower than 9.5% and possibly as high as 18.1%.[7]

ACHA established standards[8] for student health insurance programs in 2008. The first standard is: "As a condition of enrollment, the college or university requires students to provide evidence that they have adequate health insurance coverage."

The Government Accountability Office (GAO) estimated that about 30 percent of colleges nationwide required students to have health insurance in academic year 2007-2008. Some states, including Massachusetts and New Jersey have health insurance requirements for college students.[9] Other state legislatures, including Florida and Maryland have begun to look at requirements for student health insurance. Some higher education governing boards, such as the Regents of the University of California and the Idaho State Board of Education, have also implemented health insurance requirements for students in their respective systems.

In Minnesota, examples of universities which require student health insurance include:

- University of Minnesota – requirements for student health insurance date back to the 1970's. Currently, the university's website[10] states: "The University of Minnesota requires all students who are registered for six or more credits per semester (or three or more credits during summer term), and admitted to a degree program to have health plan coverage. By requiring students to have health plan coverage, the University ensures all students have access to medical care and can maintain good health, which is essential for academic success."

- University of St. Thomas - began requiring health insurance for full-time students in 2007.

➢ **Minnesota State College and University and Student Health Insurance:** The only mention of student health insurance in board policy or system procedure is in System Procedure 3.4.1 – Undergraduate Admission which states:

> *International students must purchase the system-approved student health insurance, except those students whose sponsoring agency or government certifies that the student is covered under a plan provided by the sponsoring agency or government.*

MnSCU does have a system-endorsed student accident and illness insurance option for students. The Academic and Student Affairs division in the Office of the Chancellor

[6] The American College Health Association (ACHA) is an advocacy and leadership organization for college and university health. The association's membership includes over 900 colleges and universities.
[7] Minnesota State Colleges and Universities, "The Mental Health Task Force Final Report." April 2009. http://www.academicaffairs.mnscu.edu/asa_admin/documents/MentalHealthFinalReport.pdf
[8] ACHA standards are located at http://www.acha.org/info_resources/stu_health_ins.pdf
[9] Government Accountability Office. "Most College Students Are Covered through Employer-Sponsored Plans, and Some Colleges and States Are Taking Steps to Increase Coverage." March 2008
[10] http://www.shb.umn.edu/index.htm

coordinates a request for proposal process to select the plan. The division estimates that 4,000 – 5,000 students utilize the plan each year, primarily international students. A review of college and university websites, for the most part, found that information on student health insurance was difficult to find, and in some cases was not available. We also found that information provided on websites was inconsistent or inaccurate. Therefore, students may not even know of the availability of the insurance option or have correct information to make a decision.

Beginning fall 2008, MSU Moorhead began a pilot requiring student health insurance for all undergraduate students taking six or more credits. The pilot was approved for up to five years by the university's student senate and the Minnesota State University Student Association (MSUSA). Students are required to purchase health insurance through MSU unless they indicate they already have health insurance. This insurance is a separate policy negotiated by MSU Moorhead for the students. However, international students are still required to purchase the system-endorsed policy, since that policy contains different benefits.

In the past, one other state university student senate had approved requiring insurance as a condition of enrollment. However, MSUSA did not support the requirement and the university did not implement its plan.

➢ **Other student health insurance considerations:** We found that some institutions require student health insurance of certain populations of students.

- **Intercollegiate Athletics** - Some institutions required students participating in intercollegiate athletics to have health insurance while others just encouraged. The National Collegiate Athletic Association (NCAA) has requirements for health insurance for student athletes. However, according to a July 2009 New York Times article, the NCAA never established clear standards for coverage, leaving institutions to define the requirements. Many students, whether athletes or not, have medical insurance through their parents. But these plans often exclude varsity sports injuries, limit out-of-state treatment or do not cover much of the bill.[11] The Academic and Student Affairs Division is in the process of revising Board Policy 2.6 on Intercollegiate Athletics. A recent draft sent out for comment includes a new provision requiring student athletes to maintain health insurance.

- **Academic Programs** - Requirements varied on whether health insurance was a requirement for enrollment in certain academic programs. We specifically found variance in whether nursing students were required to have health insurance. A representative in the Academic and Student Affairs division stated it is up to individual institutions to determine student health insurance requirements for academic programs.

The GAO estimated, in its study, that five percent of colleges nationwide required some of their full-time students to have health insurance – for example, students living in dormitories or those enrolled in certain academic programs. For the institutions we visited, we did not find any

[11] "College Athletes Stuck With the Bill After Injuries," *The New York Times*, 16 July 2009

specific requirements for student health insurance for students living in campus owned or managed student housing.

Recommendation

- *The Board of Trustees should consider whether policy guidance is warranted over student health insurance. Potential policy considerations include:*
  - *Should the system require enrolled students to have health insurance?*
  - *Should the system require certain populations (e.g. students living in student housing, students in specific academic programs, student athletes) of students to have health insurance?*
  - *Could the system be subject to abuse of the system-endorsed health insurance option or use of student health service operations?*

Financial Management

Student health service operations are accounted for in a local special revenue appropriation rather than the enterprise (auxiliary) appropriation. Universities and colleges prepare annual operating budgets for health services but do not prepare accrual based financial statements. Universities and colleges need to consider a proper balance between fee revenue and user charges. Since student fees are involved in funding most operations, budgets and any fee increases are discussed with committees that include student representatives.

Board policy and system procedure is unclear as to whether student health service operations are to be treated as an auxiliary enterprise. Board Policy 7.6 delegates to the chancellor the authority to manage all enterprise or auxiliary activities, including health clinics. However, System Procedure 7.3.2 on auxiliary operations defines an auxiliary enterprise as "largely limited to housing services, food services, retail sales (including the retail operations of the student centers and bookstore sales), loan programs and parking."

As discussed earlier, funding student health service operations vary. As shown in Table 10, unrestricted net asset balances also varied by operation.

System Procedure 7.3.2 for auxiliary operations has specific requirements related to retained earnings, including a requirement to have a multi-year plan in place to ensure that adequate but not excessive retained earnings and designated reserves are established and maintained. One university chief financial officer (CFO) explained that they struggle to build retained earnings in their student health service operation because there is no requirement to do so. According to the CFO, the system has required reserve levels for general operations and for auxiliary enterprises but not specifically for health service operations.

Health service operations do need to have strategies in place for long-term funding of operations. Health service directors discussed funding challenges including:

- New equipment purchases as well as replacement of existing equipment.
- Software and implementation costs for federal and state legislative requirements[12] for electronic medical records.
- Updating or relocating clinic facilities. We noted one state university facility master plan states that the health services facility is not adequate for the program. It is uncertain whether other master facilities plans address student health service needs.

Table 10: Fiscal Year 2008 Health Service Fund Unrestricted Net Assets

Institution	2008 Unrestricted Net Assets
Bemidji State University	$18,000
Century College	$0
Minnesota State University Moorhead	$1,545,000
Minnesota State University, Mankato	$135,000
Rochester Community and Technical College	$52,000
Southwest Minnesota State University	$69,000
St. Cloud State University	$175,000
Winona State University	$504,000

Source: Internal Auditing analysis of Financial Reporting data.

Recommendation

- *The Board of Trustees should consider whether board policy should be broadened to address a retained earnings requirement for student health service operations.*

[12] *Minnesota Statutes 62J.495 HEALTH INFORMATION TECHNOLOGY AND INFRASTRUCTURE Subdivision 1. Implementation. By January 1, 2015, all hospitals and health care providers must have in place an interoperable electronic health records system within their hospital system or clinical practice setting.*

Section V: Academic Program Revenues

Phase I of this project identified $8.1 million of fiscal year 2008 revenues that appeared to be generated by sales of academic program products or services, such as houses built in carpentry programs and salons offering cosmetology services. Further analysis revealed that $2.5 million of those revenues were attributable to grants or reimbursements and did not represent resale activities to the general public. The remaining $5.6 million of revenues were generated from 138 academic programs, mostly occupational and trades programs. Revenue generation capacity, though, was primarily associated with seven disciplines, which accounted for 98 of the programs and $5.4 million of the revenue, as shown in Table 11.

Table 11: Academic Program Resale Revenues – Fiscal Year 2008

Program Name	Number of Programs	Student FYE	Gross Revenues (3)
Carpentry (1)	17	834	$2,677,795
Vehicle Maintenance & Repair (2)	46	2,598	1,442,217
Cosmetology	9	537	587,890
Culinary Arts	7	379	263,975
Dental Hygiene	6	185	235,013
Massage Therapy	9	190	90,696
Applied Horticulture	4	238	76,748
All Others	38	n/a	272,388

(1) This revenue primarily is related to the construction and sale of residential housing. Students from other trade programs, such as construction electrician, heating, ventilation and air conditioning, and cabinetmaking programs also may contribute to these projects.

(2) Programs are offered at 20 different colleges and include automotive repair, auto body repair, diesel mechanics, and marine and small engine repair programs.

(3) Most of these revenues are consumed with program expenses and generate little net profit for the colleges.

Source: Internal Auditing analysis of ISRS Accounting data.

Scope of Testing

We selected 24 programs for detailed testing, including at least two programs from each of the program areas shown in Table 11. For each program, we gained an understanding of key business decisions, such as pricing and marketing, and examined fiscal controls for areas such as cash collections and purchasing.

We found that the activities which generated these revenues were integral components of the academic curriculum for these programs. For example, dental hygiene students learned their skills by cleaning the teeth of real patients in clinics run by the colleges. In some cases, the revenues helped offset program costs. For example, automotive repair programs could pass on the costs of transmission repair kits to outside customers who needed such repairs, rather than absorbing the costs by working on test vehicles. For the most part, though, the revenues from these programs were used to cover the cost of supplies and materials and generated minimal profits.

Pricing Decisions

For a few programs, such as, carpentry and applied horticulture, products were sold at the market rate. Housing construction projects often were selected based on a competitive bidding process and plants grown in the applied horticulture programs were sold at prices comparable to area garden centers. For those programs, the colleges used market pricing to avoid unfair competition with the private sector. For the bulk of the programs, though, prices were set below market in order to attract a sufficient supply of customers. For example, customers for automotive repair programs often had to leave their vehicle in the shop for a few weeks or wait until the curriculum reached the point where students were studying a particular topic. In many cases, we found that pricing decisions were made by faculty members, without administrative review. In some cases, the same prices had been charged for many years, without being reconsidered. Accordingly, we recommended that several colleges review their practices for setting the prices of the goods and services offered through these academic programs.

Marketing and Recruiting Potential Customers

A fundamental challenge faced by each of these programs was recruiting sufficient customers at the right time during the academic year. Typically new students had to acquire enough basic knowledge before offering services to outside customers. Then customers would have to be patient as students developed their skills. Also, service delivery had to coincide with the program curriculum and could be offered only during a rather narrow time frame.

Because of these marketing challenges, many programs recruited college employees and students as customers. The employee code of conduct prohibits offering special benefits to employees. At most colleges, we found a good awareness of the code of conduct. In a couple cases, though, employees were offered special discounts or access to services that were not available to the general public. We recommended that those practices be discontinued.

The prospect of not finding a sufficient number of customers presents a special risk for the carpentry programs, particularly in light of recent economic conditions. Some colleges had created unique partnerships to hedge against undue risk. For example, one college entered into an agreement with the local community development agency to build houses; another college collaborated with the Habitat for Humanity program for its housing project. The Office of the Chancellor has a real estate expert who is available to assist the colleges with managing the business risks associated with their home construction projects.

Fiscal Controls

Because most academic resale programs had relatively limited financial activity, the fiscal controls often were not optimal. Some business managers and deans did not exercise adequate oversight of these programs. In some cases, controls were concentrated with one person, without a good process of checks and balances. Quite often colleges did not have a good method for reconciling cash deposits to sales activity. In several cases, cash deposits were not made promptly. Sometimes faculty members could offer discounts or waive charges, without any administrative review. We noted a couple of cases where sales tax was not being handled properly. When we found problems with fiscal controls, we recommended that colleges improve their practices.

Recommendation

- *College and university administrators must review the fiscal controls for any academic resale program and ensure that assets are protected adequately.*

Appendix A: Summary of Relevant Minnesota Statutes, Board Policies, and System Procedures

135A.13 Student Services Pricing	The governing board of each public postsecondary system is requested to establish prices for goods and services sold through student services that approximate as nearly as possible the cost of providing quality goods and services.
136F.20 Student Health, Subdivision 1	The board shall offer health services for students at each state university and may offer health services for students at each state college. The health services may be offered either on campus or in the nearby community. The board may charge each student a health service fee set by the board. The fees shall be used to maintain the health service and equip and construct facilities. The fee may be used to contract for health, medical, and hospitalization insurance for students. The fees shall be deposited in an activity fund and are annually appropriated to the board for the purposes of this subdivision. Each state college and university shall provide an annual financial accounting of the health service money to the board.
Procedure 3.4.1 Undergraduate Admissions, Part 3 International Students, subpart B. 2	2. International students must purchase the system-approved student health insurance, except those students whose sponsoring agency or government certifies that the student is covered under a plan provided by the sponsoring agency or government.
Policy 5.14 Procurements and Contracts	Part 1. Authority Pursuant to Minnesota Statute § 136F.581, the Board of Trustees has authority for purchases and contracts consistent with Minnesota Statute § 471.345, the Uniform Municipal Contracting Law, and other pertinent statutes, as well as the authority to utilize any contracting options available to the commissioner of administration under Minnesota Statutes Chapters 16A, 16B and 16C. It is the policy of the Board of Trustees that contracts, including real property leases, shall not exceed five years, including renewals, unless otherwise provided for by law or approved by the chancellor or the chancellor's designee.
Policy 5.16 Risk Management and Insurance	Part 1. Policy Statement It is the policy of the Board of Trustees that the office of the chancellor, colleges, and universities will obtain property and casualty insurance as appropriate either through the State's Risk Management Program and/or other authorized and applicable programs. Part 2. Responsibilities The chancellor for the office of the chancellor and the presidents for the colleges and universities are responsible for effectively managing risks in order to conserve and manage the assets of the office of the chancellor, colleges and universities and minimize the adverse impacts of risks or losses. Part 3. Accountability/Reporting The Board of Trustees will be updated on an exception-based reporting system on the risk management and insurance coverage's of the office of the chancellor, colleges, and universities.
Procedure 7.3.2 Auxiliary Operations, Part 5	Subpart C: Retained Earnings Colleges and universities shall have a review process and multi-year plan in place to ensure that adequate but not excessive retained earnings and designated reserves are established and maintained. 1. It is recommended that retained earnings designated as reserves equal 30% of the prior year's operating expenses except for enterprises whose primary revenue source is student fees. Any retained earnings accumulation exceeding 30% of the prior year's operating expenses must be approved by the president. 2. It is recommended that retained earnings designated as reserves equal 15% of the prior year's operating expenses for auxiliary enterprises primarily funded by student fees. Any retained earnings accumulation exceeding 15% of the prior year's operating expenses for auxiliary enterprises primarily funded by student fees must be approved by the president.

	3. Notwithstanding 1 and 2 above, any auxiliary enterprise related to bond supported activities shall establish reserves in accordance with all applicable bond covenants. 4. Any retained earnings accumulations in excess of the levels recommended in 1-3 above, must be clearly linked to specific programming and operating needs, such as student scholarships, establishing a quasi-endowment, or planned capital expenditures. Except as provided in 4., above, funds in excess of recommended levels should be used to reduce fees and charges in the next year's operating budget, or where appropriate, to address rate variation expected to occur over the next several operating budgets.
Procedure 7.3.2 Auxiliary Operations	Part 6. Indirect Costs/ Chargebacks Auxiliary enterprise operations shall be allocated and may be charged for both direct and indirect costs as provided in System Procedure 7.3.4, Cost Allocation, and related guidelines.
Procedure 7.3.2 Auxiliary Operations	Part 7. Compliance Colleges and universities are responsible for ensuring the programmatic and fiscal soundness of their auxiliary enterprises and maintaining a written multi-year finance/business plan.
Procedure 7.3.12 Scholarships	Part 2. Delegation to Presidents The chancellor delegates to the presidents of the colleges or universities authority to use auxiliary funds and general fund resources for scholarship and grant awards. The president must consult with students regarding the plan for use of auxiliary funds or general fund resources for scholarships and grants. The president must consult with campus student associations regarding the plan for use of General Fund resources for scholarship or other grant awards. The plan must include criteria to be used in selecting recipients and require that all such scholarships and awards must be processed through the financial aid office and recorded in the financial aid system. The college or university must establish and maintain written procedures governing the establishment of scholarships and grants using auxiliary and general fund resources, including the criteria to be used in awarding such scholarships or grants.
Policy 7.6 Business Activities, Part 2 Responsibilities	Subpart A. Delegation The Board of Trustees delegates to the chancellor the authority to manage all enterprise or auxiliary activities, including but not limited to, the Revenue Fund, food service, bookstores, child care centers, printing shops, health clinics, and rental housing, in a self-financing manner to the extent practicable in accordance with Minnesota Statutes, Board policy and system procedures (see related documents below). Where delegated by the chancellor, the president is responsible for managing the enterprise or auxiliary activities for a college or university in conformance with Minnesota statutes, Board policies and system procedures. System procedures shall include, but not be limited to: • administration of enterprise and auxiliary activities, • provision for meaningful student participation in the decision making process.
Procedure 7.6.1 Competition with Private Sector	Part 3. Establishment of Procedures Each college and university shall develop a procedure to review specific issues of competition using the criteria and pricing principles defined in this procedure. The procedure shall address, but not be limited to, the following issues: (a) Process for considering major new competitive activities and for reviewing ongoing activities whose appropriateness has been questioned. (b) Periodic review of pricing structures of all significant competitive activities. (c) Presidential decision on whether to implement or continue the activity and whether the pricing of the products and services is appropriate.

Appendix B
Minnesota State Colleges and Universities: Fiscal Year 2008 Auxiliary and Supplemental Revenue Sources

Revenue	Colleges		Universities		Systemwide	
	Total	% of Total	Total	% of Total	Total	% of Total
Enterprise Activity						
Bookstore	52,733,000	58%	10,733,000	14%	63,466,000	39%
Laptop Rentals	703,000	1%	7,790,000	11%	8,493,000	5%
Parking	5,431,000	6%	4,492,000	6%	9,923,000	6%
Computer Store	48,000	0%	6,962,000	9%	7,010,000	4%
Food Service and Vending	3,741,000	4%	292,000	0%	4,033,000	2%
Health Services	613,000	1%	7,064,000	10%	7,677,000	5%
Student Housing (non-revenue fund)	2,093,000	2%	-	0%	2,093,000	1%
Childcare	221,000	0%	1,704,000	2%	1,925,000	1%
Camps	120,000	0%	992,000	1%	1,112,000	1%
Other	853,000	1%	4,084,000	6%	4,937,000	3%
Subtotal - Enterprise Activity	**66,556,000**	**74%**	**44,113,000**	**60%**	**110,669,000**	**67%**
Supplemental Academic Program Revenue						
Resale Operations	5,594,000	6%	73,000	0%	5,667,000	3%
Personal Property & Service Charges to Students	3,394,000	4%	1,940,000	3%	5,334,000	3%
Study Abroad Program Revenue	166,000	0%	3,760,000	5%	3,926,000	2%
Other	3,963,000	4%	4,434,000	6%	8,397,000	5%
Subtotal - Supp Academic Program	**13,117,000**	**15%**	**10,207,000**	**14%**	**23,324,000**	**14%**
Leveraged Asset Capacity						
Facility Rental	2,423,000	3%	531,000	1%	2,954,000	2%
Service Center Revenue	506,000	1%	4,983,000	7%	5,489,000	3%
Interest (wo/Rev Fund)	1,710,000	2%	1,082,000	1%	2,792,000	2%
Sale (Loss) of Assets	1,379,000	2%	(336,000)	0%	1,043,000	1%
Other	3,228,000	4%	3,686,000	5%	6,914,000	4%
Subtotal - Asset Capacity	**9,246,000**	**10%**	**9,946,000**	**13%**	**19,192,000**	**12%**
Event Revenue						
Athletics	248,000	0%	6,489,000	9%	6,737,000	4%
Fine Art Performances	214,000	0%	691,000	1%	905,000	1%
Intramural Sports (includes Rec Center)	13,000	0%	810,000	1%	823,000	1%
Student Organization/Clubs and Special Events	430,000	0%	572,000	1%	1,002,000	1%
Other	346,000	0%	1,252,000	2%	1,598,000	1%
Subtotal - Event Revenue	**1,251,000**	**100%**	**9,814,000**	**100%**	**11,065,000**	**100%**
Totals:	**$ 90,170,000**	**100%**	**$ 74,080,000**	**100%**	**$ 164,250,000**	**100%**