

Digest of A PERFORMANCE AUDIT OF INTERNAL SERVICE FUNDS IN HIGHER EDUCATION

This audit makes numerous recommendations regarding policies and controls within higher education's internal service funds which include auxiliary and service enterprise funds. We reviewed one auxiliary fund--bookstores; and two service enterprise funds--motor pool and printing operations. In our opinion, more serious problems have existed at Utah State University. However, since our audit many of these problems have been corrected or are in process of being corrected. At all campuses, the operations funded by the service funds provide valuable benefits. However, stronger controls will help all institutions save money and provide better service to the institutions.

While the Board of Regents has a policy on competition with private merchants, stronger controls are needed to monitor compliance with that policy. Again, these problems are more serious at one institution.

This audit was conducted in response to requests from several legislators. Two requested a review of controls over bookstores and service enterprise funds (we selected motor pool and printing operations). One legislator requested an audit to determine if institutions compete with private merchants.

Our audit found a number of areas in which improvements are possible and accordingly makes recommendations to the Utah Board of Regents, to institutional administrators, and to managers of the concerned campus operations. The following statements summarize the findings and recommendations of this report.

Bookstores Perform Satisfactorily But Some Improvements Are Needed. While financial data show that Utah's college bookstores generally perform satisfactorily, operations in some stores could be improved. Comparisons between eight of Utah's nine institution bookstores and over 600 national institution bookstores regarding financial data indicate that Utah's bookstores compare favorably with two exceptions: at Utah State University two store locations were losing money, while at College of Eastern Utah textbook prices were unusually high. At the conclusion of fieldwork, Utah State University administrators merged three stores into two locations and as a result, they have reduced expenses and improved inventory turnover. Also, CEU administrator reported they have significantly reduced textbook prices. In addition, some bookstores need to improve security by implementing better systems for evaluating shrinkage and by implementing some simple security measures. Finally, the Board of Regents needs to clarify its policy on the purposes for which profits may be used. Our review disclosed instances where bookstore profits are being used to subsidize nonauxiliary enterprise funds. For example, one institution has used bookstore profits to subsidize faculty and staff tickets to athletic events.

Students Could Save If Used Textbook Sales Were Increased. We estimate students can

realize significant savings if used textbook sales are increased at Utah State University, College of Eastern Utah, Dixie College, Salt Lake Community College, and Utah Valley Community College. We calculate savings of at least \$180,000 are possible if used textbook sales are increased to 30 percent and up to \$300,000 if they are increased to 40 percent. These savings would occur because used textbooks cost students approximately 25 percent less than new ones.

Better Controls Will Improve Vehicle Use. Although many motor pool vehicles at Utah's nine higher education institutions are being driven a high number of miles per year, better controls will improve vehicle use even further. Generally, motor pool vehicles are being driven over 15,000 miles per year. However, because there is no requirement that motor pool cars be used when cost beneficial, at some institutions such cars sit idle while faculty and staff are reimbursed for using their own cars. In addition to finding that better use could be made of motor pool vehicles, we found that at two institutions department-owned vehicles are not fully used and their number should therefore be reduced. We estimate a savings of over \$100,000 is possible if controls are introduced to ensure fuller use of the motor pool as well as a more cost beneficial method of acquiring, using, and disposing of department vehicles.

Better Controls Over Printing Needed. Printing within higher education can become more cost effective. Despite lower overhead costs, institution print shops often charge more than private printers. Institutions need to conduct price comparisons with the private sector on a systematic basis by sending more jobs out for bid and documenting those bids. USU's in-house printer (PDP) needs to identify their actual costs and ways in which they can become more competitive with private printers. The in-house printers at U of U and WSU currently track job costs, but they need to use this cost information more in pricing. Even though costs are often high, institution print shops are generally doing a good job. Most departments are pleased both with the quality of work and the fast turn-around time in-house printers provide.

Some Services Unfairly Compete With Private Business. Some institutions have taken an aggressive stand to not provide services to noninstitution customers. However, USU's bookstore has open accounts and offers a 10 percent discount to many private and nonprofit organizations. In addition, the printshop also provides services to private and nonprofit organizations. USU has provided these services to maintain a good relationship with the community. USU officials have agreed to take action to eliminate competition. In addition to unfair competition with private businesses we are also concerned about the abuse of employee benefits at some institutions. At one institution, faculty and staff have used employee discounts to purchase textbooks for students. At another institution bookstore employees have received interest-free credit. All institutions need to review their practices to ensure unfair competition and employee abuse of benefits do not exist.

More Oversight Needed. The Board of Regents and the institutions' administrators should provide more oversight by clarifying policies and improving controls over auxiliary and service enterprise funds. In addition, each institution's fund manager should strengthen specific controls over day-to-day operations as identified in this report.