

**Report on Benchmark Information for College and University  
Administrative and Support Programs**

**Response to Item 156.C., Chapter 1, Special Session 1, 1998**

**State Council of Higher Education for Virginia  
November 17, 1998**

## Report on Benchmark Information for College and University Administrative and Support Programs

### Introduction

The 1998 General Assembly directed the Council of Higher Education to "provide benchmarking information on the administrative and support service programs of the public institutions of higher education." (Item 156, Chapter 1, Special Session 1, 1998. See Appendix for full citation.) One purpose of the benchmarking information is to provide clear and useful information to top administrators at institutions and their boards of visitors, and to provide assurance to state officials regarding the management and fiscal health of Virginia's public colleges and universities. Coming out of the General Assembly session, the chief finance officers at the institutions began working cooperatively to identify successful management practices that could be shared with other institutions.

In an initial step, the Council staff and the finance officers met with representatives from the National Association of College and University Budget Officers, which collects information on management practices that could be useful for analysis in Virginia. After receiving the NACUBO data, the staff and finance officers concluded that an alternative approach to establishing administrative benchmarks would be more productive.

Subsequently, the Council staff met with the finance officers and spoke with representatives from the Department of Planning and Budget, the Department of Accounts, the Department of General Services, and the Council on Information Management, as well as staff from the Senate Finance Committee and the House Appropriations Committee. The finance officers, working through the Chief State School Business Officers (CSSBO), took the lead in cooperatively identifying sound management practices. What emerged in these discussions is that the most useful "benchmarking information" would be a list or compendium of financial health indicators, ratios, or best practices that could be shared among and adopted by all institutions. This information would complement current audit procedures and management standards already in place in the Commonwealth, such as annual state audits and the comptroller's "Report on Statewide Financial Management and Compliance."

The next steps involve distributing to the institutions the administrative benchmarks contained in this report and monitoring their use. At the same time, the Council will continue to work with the General Assembly and the executive agencies named in the Appropriation Act language to ensure that the benchmarks provide the assurance expected in a decentralized environment.

As a longer range objective, the Council may wish to initiate an update to the state Chart of Accounts. The Chart of Accounts is an integral part of the

accounting systems of institutions of higher education. It provides the framework for a modern, effective, and uniform system of bookkeeping and accounting. The Chart of Accounts was last updated in 1990. In addition to meeting Virginia-specific needs that have arisen since 1990, there have been significant changes in national accounting standards that could be incorporated in a new Chart of Accounts. An updated Chart of Accounts also could accommodate some of the benchmarking information described in this study. An initiative to update the Chart of Accounts would require the approval of the state comptroller, as provided in Section 2.1-196.1 of the Code of Virginia.

The following proposed administrative benchmarks were developed in cooperation with the chief finance officers of the institutions. They represent the combined "best practices" of the institutions and grew out of discussions with the finance officers of the policies and procedures they follow for establishing and maintaining their institutions' systems of internal management controls. Key elements of these controls, as described in the following report from Virginia Tech, include the following:

- Careful selection and training of administrative personnel;
- Organizational structure that provides appropriate division of duties;
- Thorough and continuous monitoring, control, and reporting of operating budgets versus actual operating results;
- Well-communicated written policies and procedures;
- Annual self-assessments led by the university controller; and
- An extensive internal audit function that provides both financial audit and management services functions ("Virginia Tech Financial Report, 1997").

Building on these concepts, the following proposed administrative benchmarks, or "best practices," are divided into four categories:

- Fundamental business management principles;
- Timely reconciliations and account analysis;
- Financial health indicators; and
- Effective internal audit.

The proposed benchmarks are intended to be used in conjunction with, and supplemental to, the existing management standards and other existing management tools. The purpose of these benchmarks is to offer a series of performance objectives that:

- Relate to the conduct of the financial and administrative operations within and throughout each fiscal year;
- Reflect commonly held views and experiences as to policies, procedures, and practices that, when applied on a consistent and

thoughtful basis, help protect a college or university from unexpected financial reverses or other negative circumstances;

- Contribute over time to producing the most effective financial and administrative support for an individual institution; and
- Can be both affirmed by senior management of an institution and confirmed through appropriate review by internal audit staff and the Auditor of Public Accounts.

### Management standards

Since the mid-1980s, colleges and universities in Virginia have been required to conform to five "Commonwealth Management Standards" as a pre-condition to certain management and financial benefits. Three of the Commonwealth's management standards focused on annual financial statements prepared by institutions of higher education. Two standards -- one requiring the timely payment of invoices and the other requiring the timely and effective collection of receivables -- were drafted from a more operational perspective. They were intended to serve as "indicators" of the presence of an effective foundation of policies, procedures, systems, staffing arrangements, training, and management oversight that would enable an institution to effectively carry out overall disbursement and revenue cycles.

These five management standards were created through a joint committee comprised of senior financial officials of the Commonwealth and senior representatives from Virginia's colleges and universities. When first established and sanctioned within the Appropriation Act, not all universities were able immediately to meet all five standards. However, through diligent efforts, virtually all institutions now attain each standard on a year-to-year basis.

### Administrative benchmark 1: Fundamental business management principles

Institutions of higher education in Virginia follow general accepted accounting principles in the establishment and operation of funds to carry out their programs. This fund structure fits well within the state's major program categories, such as Educational and General Programs, Auxiliary Enterprises, Student Financial Aid, and Capital Outlay.

Accountability within these major programs is a very important managerial control concept. Key elements of a sound managerial control system should include the following:

- The establishment and management of budgets within each major program category;
- Periodic review of budgets and comparisons to actual results of operations; and

- Analysis and explanation of variances in sufficient detail for management to be able to evaluate the programs' ability to operate within budget constraints and to take corrective actions as necessary on a timely basis.

Budget vs. actual reports are essential elements in the ability of management to monitor operating activities. Depending upon the institution's operating philosophies, such reports may be needed in many areas or relatively few. For example, in a highly decentralized institution, reports on educational and general operations are likely to be required for many units and different levels of the organizational structure. On the other hand, some operations, such as student financial aid and capital outlay, often are centralized functions where the number and distribution of such reports are much more limited. Regardless of the operational philosophy, the reports should be prepared and distributed on a periodic and regular basis, such as every month or every quarter.

While budget vs. actual reports are essential for operating management, they also are very important for the executive levels of an organization. As a result, institutions should meet the following objectives:

- Summarized budget versus actual reports should be prepared for review with the institution's executives on a consistent basis.
- University-wide reports also should be submitted and reviewed with the institution's board of visitors or appropriate board committee. Along with a review of the institution's annual financial report and independent audit report, the periodic review of budget versus actual operating reports is a primary way in which the board of visitors carries out its fiduciary responsibility for the institution.

#### Administrative benchmark 2: Timely reconciliations and account analysis

Timely reconciliations among key accounts help verify the essential agreement among related records that are maintained either by different entities or for different purposes within a single entity. They also can be used to conduct analyses of asset, liability, fund balance, transfer, revenue, and expenditure accounts, and can help manage significant variations from period to period. Key to timely reconciliations are the following principles:

- A system should be in place that ensures that fixed assets recorded by the institution agree with the records of the Commonwealth.
- Adequate internal controls should be in place to ensure accurate recording and safeguarding of institutional fixed assets.
- Institutional investments recorded in university records should agree with records held by investment managers and trustees.
- Revenues and expenditures recorded in the books of the university should agree where appropriate with the revenues deposited to the

Commonwealth's bank accounts and recorded in the books of the treasurer and the expenditures recorded by the state comptroller against the institution's appropriations.

- Institutionally initiated nonmandatory transfers between major programs (e.g., Educational and General Programs, Auxiliary Enterprises, Sponsored Research, Capital Outlay, etc.) should agree with the accounting records of the appropriate state offices and be highlighted in the financial records of the institution.

### Administrative benchmark 3: Financial health indicators

Management ratios, particularly if they are compared over time or to other appropriate benchmarks, provide quick and digestible indicators of financial health. They help alert decision makers to areas with potential problems. Some key management ratios include:

- Expendable fund balances/Plant debt. This liquidity ratio is an indicator of an institution's ability to satisfy its debt requirement. A ratio in excess of 100 percent indicates that all plant-related liabilities could be covered by liquid assets.
- Expendable fund balances/Total expenditures and mandatory transfers. This is a "rainy day" ratio that describes the cushion an institution has in the event of a decline in revenues. The ratio should be positive.
- Debt service/Total unrestricted revenue. This ratio measures the extent to which unrestricted operating revenues are needed to cover annual debt service. The lower the ratio, generally the more capacity the institution has to handle additional debt.
- Actual revenue/projected revenue and actual expenditures/projected expenditures. These are "check in" ratios. In different programs (Educational and General Programs, Auxiliary Enterprises, Sponsored Programs, etc.) revenues are attained at different times throughout the fiscal year and expenditures are incurred at different times. The only way effectively to manage operations (and adjust spending if necessary) is to be able to measure actuals vs. projected at meaningful times throughout the year. Institutions will vary between monthly, quarterly, or semester reviews based upon the specifics of the operation.
- Applicants/offers and offers/acceptances. In conjunction with institution-specific information on selection criteria, an institution can review its selectivity as well as its matriculation ratio. This analysis will provide early signals relative to the strength of the institution in the market place. Most institutions will have similar trend analysis information specific to graduate and undergraduate programs and disciplines.

#### Administrative benchmark 4: Effective internal audit

The purpose of an internal audit is to provide an ongoing, independent review of institutional operations. Institutions should demonstrate that they have an effective internal audit function by meeting the following four requirements and certifying to the Department of Accounts (or other designated state agency) that these requirements have been met:

- Internal audit should report directly to the office of the president and the board of visitors.
- Regular and routine communications should exist between internal audit and the president (or executive vice president) and the board of visitors (through an appropriate board committee).
- The audit function should be reviewed on a regular basis (at least once every five years) by an independent reviewer and receive a satisfactory evaluation. This satisfactory evaluation should include the timely implementation of any review.
- The university should have an annual audit plan that is presented to the board of visitors through the appropriate board committee. The institution should have an established philosophy and overall audit approach.

#### Documentation and certification

Documentation of an institution's use of the preceding management benchmarks would typically be comprised of a period-to-period series of working papers prepared by finance and business office staff, reviewed by supervisory staff, and held in organized files. Written confirmation that an institution adheres to these benchmarks could be included in a statement of management's responsibility for the preparation of the annual financial statements or through other appropriately visible vehicles.

**Appendix**  
**Selected Language from Item 156, Chapter 1, Special Session 1, 1998**

- C. The amounts for Higher Education Coordination and Review include \$100,000 the first year and \$100,000 the second year from the general fund for the State Council of Higher Education "Indicators Project". For 1998-99, the State Council of Higher Education's "Indicator's Project" should provide benchmarking information on the administrative and support service programs of the public institutions of higher education. The Council should participate in existing national studies, such as those provided by the National Association of College and University Business Officers. The public institutions of higher education, the Department of Accounts, the Department of General Services, the Department of Planning and Budget, and the Council on Information Management are requested to provide staff assistance and participate cooperatively in the design and implementation of this project. The Council shall report its findings to the Governor and the General Assembly by November 1, 1998.