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HUMAN RESOURCES
DIVISION

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RELEASED

The Honorable William Proxmire
Ranking Minority Member
Subcommittee on Labor, Health
and Human Services and Education
Committee on Appropriations
United States Senate

Dear Senator Proxmire:

Subject: Use of Federally Appropriated Funds by Howard
University for Administrative Expenses (HRD-82-50)

Pursuant to your October 20, 1981, letter, we reviewed Howard University's use of federally appropriated funds for administrative expenses. Data provided to you by the National Center for Educational Statistics (NCES) indicated that Howard's 1978-80 institutional or administrative expenses as a percentage of educational and general expenditures were generally four to five times higher than other similar universities. According to NCES data, Howard's administrative expenses in recent years have averaged about 23 percent of its educational and general expenditures.

For fiscal year 1981, Howard received appropriations of \$133,983,000 including \$101,637,000 for academic programs, \$22,106,000 for its hospital, and \$10,240,000 for construction. The remainder of its total budget of about \$247 million was obtained from student fees and tuition and other revenue sources. Howard initially reported that about \$29.3 million of its total expenses were used for administrative expenses. The administrative expenses reported by Howard to NCES, however, were overstated because expenses amounting to about \$15 million were erroneously classified. After adjusting for the errors, Howard's administrative expenses for fiscal year 1981 were about 10 percent of its educational and general expenditures, a percentage more comparable to other similar universities.

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Enclosure I discusses the results of our review in more detail.

We will not release this report for 30 days unless you approve its release or make its contents public. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

Edward A. Bensmore
for Gregory J. Ahart
Director

Enclosures - 3

USE OF FEDERALLY APPROPRIATED FUNDS BY HOWARDUNIVERSITY FOR ADMINISTRATIVE EXPENSESBACKGROUND

Howard University was established by an act of incorporation by the U.S. Congress on March 2, 1867, and began officially operating on May 1, 1867. In 1928 the Congress amended the original act of incorporation to authorize annual Federal appropriations to aid in the construction, development, improvement, and maintenance of Howard. The amendment prohibits the use of funds for religious purposes. Appropriations were authorized for Howard because the Congress believed the Federal Government had an obligation to help establish Howard as a top-rank university to compensate Black citizens for the inequitable cultural and educational opportunities afforded to them. In fiscal year 1/ 1981, Howard received \$133,983,000 in Federal appropriations; over half of its 1981 total expenditures of \$247 million. The remaining expenditures were covered by student fees and tuition, endowments, gifts, grants, and revenues generated from services and other functions provided by educational departments and auxiliary enterprises.

According to Howard, its goal is twofold. One goal is to provide students, irrespective of race, sex, creed, or national origin, the highest quality education at a reasonable cost. The other is to assist, through use of its research resources, in the development of solutions to human and social problems. Currently, Howard has 17 schools and colleges and offers master's degrees in over 85 areas and doctor of philosophy degrees in 23 fields. During the 1980-81 academic year Howard conferred 1,872 degrees. It also awarded 38 certificates in such areas as radiological technology, radiation therapy, and physician assistant.

The majority of Howard's student population are minority students, principally Blacks. During the 1980-81 academic year, Howard's student population totaled 12,294. Black students comprised about 79 percent of the student population. About 17 percent of the remaining students were nonresident aliens and about 4 percent were American Indians, Asians, Hispanics, and Caucasians. Howard's foreign student population represents between 15 and 20 percent of the student body with about half of these students coming from African countries.

Howard is directed by a Board of Trustees and a president as shown by the organizational chart in enclosure II. It is divided into six major organizational areas with each area being assigned to a vice president who reports to the president. About 6,029 persons are employed by Howard, including about 1,955 involved in

1/Howard's fiscal year extends from July 1 to June 30.

teaching, about 2,519 involved in the University's hospital activities, and the remainder employed generally in administrative and institutional support staff positions.

SCOPE OF REVIEW

Our review of Howard's administrative expenses was limited primarily to the University's use of federally appropriated funds for fiscal year 1981 administrative expenses. We selected the 1981 expenses because they were most recently audited by Howard's certified public accountants. We confirmed that Howard's use of federally appropriated funds for fiscal year 1981 was typical of the way in which it used the funds in past years. Our analysis of expenses was based on Howard's annual expenditure reports which showed for each expense category the use of Federal and non-Federal funds. Our analysis of Howard's expenditures was directed to understanding the nature of the expenses and not to determining whether the expenses were justified or properly documented. We relied on the work of Howard's certified public accountants as to the integrity of the financial accounts. We also reviewed certified public accountants' annual audit reports of Howard's financial activities to ascertain whether they contained any exceptions concerning accounting for administrative expenses.

Our review was generally performed in accordance with GAO's current "Standards for Audits of Governmental Organizations, Programs, Activities, and Functions."

HOWARD'S REPORTED ADMINISTRATIVE EXPENSES OVERSTATED

The administrative expenses Howard reported to the National Center for Educational Statistics (NCES) were overstated by about \$15 million for fiscal year 1981 primarily because they erroneously included certain employee fringe benefit and auxiliary enterprise expenses.

Each year Howard provides financial data to NCES as part of NCES' nationwide collection of financial statistics on colleges and universities. Howard annually reports to NCES its total educational and general expenditures consisting of expenditures for instruction, research, institutional or administrative support, academic support, public service, student services, operation and maintenance of plant, and scholarships and fellowships.

NCES suggests that colleges and universities report their financial data on the basis of the guidelines established by the National Association of College and University Business Officers (NACUBO) and the American Institute of Certified Public Accountants (AICPA). These guidelines define expenditure categories for universities and recommend the type of expenses to be charged to each.

According to the guidelines, expenses relating to a university's general executive and administrative offices should be charged to administrative support, and expenses relating to the university's instruction activities should be charged to the instruction expenditure category. The guidelines also state that, like salary expenses, employee fringe benefit expenses should be distributed among the appropriate expenditure categories.

Accordingly, an administrator's fringe benefits should be charged to the administrative expense category, and an instructor's fringe benefits should be charged to the instruction expenditure category. The guidelines recommend that universities allocate an appropriate portion of the administrative costs to auxiliary enterprises. Auxiliary enterprises are entities, such as residence halls, food service, intercollegiate athletics, and college unions, that exist to furnish goods or services to students and faculty.

Howard reported administrative expenses to NCES for fiscal year 1981 totaling \$29.3 million, which represented about 20 percent of its educational and general expenditures. ^{1/} For fiscal year 1980, Howard reported administrative expenses totaling about \$37.5 million representing about 23 percent of its educational and general expenditures. Howard's administrative expenses included costs for central executive level activities, fiscal operations, administrative data processing, space management, personnel records, logistic activities, support services to faculty and staff, public relations, and university development activities. Most of these expenses were charged to Howard's Federal appropriations. The distribution of Howard's administrative expenses for fiscal year 1981 between federally appropriated and university funds by office or function is shown in enclosure III.

We pointed out to Howard officials that Howard's administrative expenses as reported to NCES appeared to be higher than those reported by other similar universities. Howard asked its certified public accountants to look into this matter. The accountants discovered, and our review work corroborated the fact that, during the past several years, Howard included in the administrative expenses category reported to NCES some expenses which should not have been charged under this category. Howard charged all employee fringe benefit expenses to the administrative expense category, whereas only fringe benefit expenses for employees in administrative offices should have been charged to this category. The accountants made an adjustment of about \$9.7 million to account for the improperly classified fringe benefits of nonadministrative staff and other improperly classified expenses.

^{1/}Howard's educational and general expenditures for fiscal year 1981 were \$143 million of the University's total expenditures--\$247 million. The remaining expenditures were for the University's hospital and auxiliary enterprises.

Also, Howard did not allocate any administrative expenses to its auxiliary enterprises as provided for by NACUBO and AICPA guidelines; this required an adjustment of about \$5.1 million. Consequently, the financial data which Howard reported to NCES overstated the amount of the University's administrative expenses.

After making the appropriate adjustments, Howard's administrative expenses for fiscal years 1980 and 1981 were about \$16 million and about \$14 million, respectively, representing about 11 percent and 10 percent of its educational and general expenditures. Howard submitted the adjusted amounts to NCES. Howard officials told us that Howard's administrative expenses were also overstated for the previous 2 fiscal years but that adjustments for those years will not be made.

HOWARD UNIVERSITY'S USE OF FEDERALLY
APPROPRIATED AND UNIVERSITY FUNDS
FOR ADMINISTRATIVE EXPENSES FISCAL YEAR 1981

<u>Administrative office/function</u>	<u>University funds</u>	<u>Federally appropriated funds</u>	<u>Total expenses</u>
Office of the President	\$128,919.16	\$235,749.22	\$364,668.38
Information Systems Task Force Office	99,299.13	118,157.20	217,456.33
University Planning Office	22,479.25	275,707.30	298,186.55
Operational Analysis/ Institutional Research Office	240.65	360,357.58	360,598.23
Computer Center	88,186.11	1,683,937.68	1,772,123.79
Office of Computer Application	3,275.29	339,238.89	342,514.18
Office of University Legal Counsel	8,132.37	159,490.47	167,622.84
President's travel promotion	16,659.74	1,429.50	18,089.24
Office of the Vice President for Uni- versity Relations	223,269.49	152,663.02	375,932.51
Government Relations Office	13,052.43	152,458.70	165,511.13
Miscellaneous (note a)	828,940.06		828,940.06
Consortium costs	1,673.00		1,673.00
Property acquisition/ rental	328,302.54		328,302.54

<u>Administrative office/function</u>	<u>University funds</u>	<u>Federally appropriated funds</u>	<u>Total expenses</u>
Compensation for administrative officers/deans	\$55,265.70	b/\$1,762,391.14	\$1,817,656.84
Real estate taxes on investment property	5,882.99		5,882.99
Real estate taxes on donated property	7,030.09		7,030.09
Prior year expendi- tures/general & administrative	(105,845.52)	1,371.62	(104,473.90)
Recovery of indirect costs	223,004.41		223,004.41
Payroll system improvement	148,213.34		148,213.34
Salary adjustment account	(413,206.72)	39,786.08	(373,420.64)
Budget Office	3,433.06	321,603.57	325,036.63
Office of Financial Budget/Analysis	1,263.50	140,809.46	142,072.96
Office of the Comptroller	514,112.13	569,771.22	1,083,883.35
Accounting Office	(6,716.40)	314,475.06	307,758.66
Accounts Payable/ Disbursement Office	(10,533.60)	422,415.85	411,882.25
Accounts Receivable Office	3,358.94	639,278.75	642,637.69
Student Loans Office		16,376.25	16,376.25
Cashier's Office	(122.08)	20,638.89	20,516.81

<u>Administrative office/function</u>	<u>University funds</u>	<u>Federally appropriate funds</u>	<u>Total expenses</u>
Payroll Office	\$ (4,765.22)	\$329,813.42	\$325,048.20
Restricted Accounting Office	11,304.13	277,214.93	288,519.06
Financial Programing Office		280,329.80	280,329.80
Purchasing Office	1,139.36	262,218.74	263,358.10
Office of Internal Auditor	12,417.11	120,229.55	132,646.66
Office of the Director--Auxiliary Enterprises	92,473.86	428.70	92,902.56
Post Office	(10,881.16)	101,422.85	90,541.69
Office of Benefit Pension Administra- tion	53,004.76	345,748.37	398,753.13
Central Receiving Office	1,771.01	32,177.60	33,948.61
Office of Univer- sity Relations	109,268.09	283,699.70	392,967.79
Publications Office	189,554.98	127,665.09	317,220.07
Development Office	48,413.52	286,642.83	335,056.35
President's annual report	12,890.20	154.64	13,044.84
Promotional program	76,419.21	2,000.00	78,419.21
Alumni Office	111,688.57	362,158.02	473,846.59
International Affairs Office	718.20	20,980.25	21,698.45
Office of the Vice President for Business/Fiscal Affairs	63,356.62	352,322.16	415,678.78

<u>Administrative office/function</u>	<u>University funds</u>	<u>Federally appropriated funds</u>	<u>Total expenses</u>
Auditing expense	\$454,457.61		\$454,457.61
Membership expense	36,772.00	\$ 2,000.00	38,772.00
Investment expense	58,474.75		58,474.75
Contract legal service	38,472.56		38,472.56
Legal settlement	88,019.60		88,019.60
Bad debts expense	226,170.03		226,170.03
Office of the Vice President for Administration	22,446.05	178,779.22	201,225.27
Board of Trustees	120,652.81	31,931.25	152,584.06
Board of Trustees Chairman's Hospitality Fund	1,043.73		1,043.73
Commencement expenses	119,545.97	4,545.45	124,091.42
Office of Personnel Administration	52,302.88	372,945.81	425,248.69
Employment recog- nition expense	25,164.89		25,164.89
Architecture & engi- neering services (contract)	231,829.72	179,420.90	411,250.62
Payroll Office renovation	125,381.00	1,100.00	126,481.00
Office of Security/ Safety Services	250,881.01	1,505,591.90	1,756,472.91
Cramton Auditorium management	2,021.64	96,786.61	98,808.25

<u>Administrative office/function</u>	<u>University funds</u>	<u>Federally appropriated funds</u>	<u>Total expenses</u>
Military property custodian	\$ 32.06	\$ 18,426.50	\$ 18,458.56
Architecture & engi- neering services (in-house)	1,239.77	191,968.49	193,208.26
Staff benefits	530,636.92	733,879.93	<u>c/1,264,516.85</u>
Disability differ- ence pay	3,017.82	3,122.59	6,140.41
Consultant/admin- istrative fees	<u>2,595.45</u>	<u>7,786.35</u>	<u>10,381.80</u>
Total	<u>\$5,347,500.57</u>	<u>\$14,241,599.10</u>	<u>d/\$19,589,099.67</u>

Less:

Administrative overhead expenses for auxiliary enterprises	(e)	(e)	<u>e/5,137,703.00</u>
Actual expenses			<u>\$14,451,396.67</u>

- a/Generally includes unusual, nonrecurring expenses, such as cost overruns.
- b/Funds for instructional deans to be reclassified at yearend. All administrative officers' and deans' salaries are charged to a combined account internally during the year with a re-allocation to the respective department at yearend.
- c/This amount reflects fringe benefit expenses for administrative staff only.
- d/This amount represents Howards's total administrative expenses after reclassifying \$9,731,279 in fringe benefits for nonadministrative staff and other expenses, but before allocating \$5,137,703.00 in administrative overhead expenses for the operation of the University's auxiliary enterprises.
- e/The amounts of Howard University and federally appropriated funds used for administrative overhead auxiliary enterprise expenses are not available.