



Grizzly Lofts

June 17, 2021

Report No. 171-21

Office of Internal Audit & Risk Management

Table of Contents

MANAGEMENT LETTER 1

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

- 1. Cost to the University 3
- 2. Terms of the Agreement 4
- 3. Communications 5

APPENDIXES

- 1. Appendix A – Campus Residency by Term 6
- 2. Appendix B – Summary of Survey Responses 7

Missouri State University™

W E S T P L A I N S

DATE: June 17, 2021

TO: Dr. Angela Totty, Dean of Student Services
Dr. Dennis Lancaster, Interim Chancellor

CC: Rachael Dockery, General Counsel
Clifton M. Smart III, University President

FROM: Natalie B. McNish, Interim Director, Internal Audit and Risk Management

Grizzly Lofts

BACKGROUND

The University owns and operates a student housing facility on the West Plains campus known as the “Grizzly House.” This facility consists of 60 beds. In addition, the University leased 6 nearby apartments which were also assigned to students. In 2016, the University entered into a Facilities Management Agreement with the Howell Creek Shoe Factory Commons, LLC for the exclusive right to lease, operate and sublease a building called “Grizzly Lofts.” Through this agreement, the University increased its ability to provide housing to students by 274 beds. This agreement has been renewed through June 30, 2021.

With the addition of this facility, the University was able to provide housing for many more students and the lease for the additional 6 apartments was discontinued. While enrollment has declined, it is noted the University would not currently have sufficient housing for all students who reside on campus without the use of this facility.

Under the terms of the agreement, rent is collected by the University and remitted to the owner. University employees staff the facility and the owner provides reimbursement for certain salaries and fringe benefits. In addition, the University maintains the facility and completes repairs as necessary. Direct costs related to the maintenance and repair of the facility are reimbursed provided by the owner.

In conjunction with the pending renewal, Interim Chancellor, Dr. Dennis Lancaster and President, Clif Smart requested the review to provide additional insight and information for use in making future operational decisions. See Appendix A for a report of campus residency in both the Grizzly House and Grizzly Lofts as well as Appendix B for a summary of survey responses received from the most recent tenants of the Grizzly House.

OBJECTIVE AND SCOPE

The objectives were to review the Facilities Management Agreement and various renewals to determine compliance with various terms. The scope included, but was not necessarily limited to, two years ending June 30, 2020 through current.

SUMMARY

While the use of the Grizzly Lofts facility has provided needed student housing, the University had absorbed revenue losses and other costs related to the management of the facility, the terms of the agreement do not align with actual procedures and in some instances, are not clearly written to ensure accurate application. In addition, non-compliance with some terms was noted for both parties. Lastly, communication by the University regarding management activities is not always timely, not always complete or clear, and approvals from the owner are not always documented.



Natalie B. McNish, CFE, CGAP
Interim Director
Office of Internal Audit and Risk Management

Audit Field Work Completed: June 1, 2021

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. Cost to the University

During the four years the University has managed the Grizzly Lofts facility; the University has absorbed approximately \$97,000 in losses/costs from reduced capacity at the Grizzly House and payroll and benefit expenses.

Vacancies at the Grizzly House

Upon signing the agreement to manage the Grizzly Lofts, the University developed a housing model which placed freshmen at the Grizzly Lofts and sophomores and athletes at the Grizzly House. Student requests for housing location changes were generally approved as vacancy allowed. Since accepting management responsibility, vacancies at the Grizzly House have occurred which resulted in lost revenue for the University totaling approximately \$58,000 between the Fall 2017 and Fall 2019 terms.

During the COVID-19 pandemic, policies shifted to house only athletes at the Grizzly House and all other students at the Grizzly Lofts. This policy created an additional loss of more than \$100,000 for the Fall 2020 and Spring 2021 terms; however, this loss was reimbursed through HEERF funding due to its direct relation to the University's response to the global health crisis. No loss is recognized for the Spring 2020 term, as most students vacated student housing (both the Grizzly Lofts and the Grizzly House) upon the closure of campus in March 2020.

Unreimbursed Payroll Expense

The agreement provides reimbursement of payroll and fringe benefit expense of specific employees whose primary responsibility is to provide services to those who reside at the Grizzly Lofts. These positions include a full-time on-site Manager, a full-time Custodian, a part-time Resident Director, and up to four (4) Resident Assistants. However, the agreement does not provide reimbursement of payroll or fringe benefit expense for other University employees who complete tasks related to the operation and management of the Grizzly Lofts such as purchasing, payroll generation and reporting, information technology equipment support services, student life oversight and training, accounting, and more. Not including any administrative employees, we determined the University has absorbed at least \$39,000 in payroll and benefit expenses between January 1, 2018 and February 28, 2021 which are directly related to the operation of the facility.

In the recitals of the agreement, it is affirmed, "the University is interested in offering additional student housing facilities to students attending the West Plains campus and is willing to assume management of the Facility to provide such additional student housing so long as the University incurs no out of pocket expense to do so."

Recommendations

University management should reassess risk of lost revenue and unreimbursed expense related to the management of the Grizzly Lofts to ensure the risk is acceptable, properly managed, and to ensure operations are sustainable for any future term.

Management's Response

University administration accepts this recommendation and will utilize the audit findings to determine future decisions for management of the Grizzly Lofts.

2. Terms of the Agreement

The terms of the agreement do not align with actual procedures used to operate the Grizzly Lofts and in some instances, are not clearly written to ensure accurate application. In addition, non-compliance with some terms was noted for both parties.

- Payment of rent collected is not always remitted to the owner within the guidelines of the agreement. The agreement requires the University to pay the owner rents collected before the Refund Deadline within two weeks, and the balance within 45 days of the end of a semester. In a review of seven (7) consecutive semesters, we found the University meets the end of semester deadline but did not meet the initial payment deadline.

Similarly, payment of payroll expenses is not always received by the University within the guidelines of the agreement. The agreement requires the owner to remit payroll and benefit reimbursement to the University within seven days of the receipt of the report of expenses is received. We reviewed 14 reimbursement periods and determined seven (7) were received within the required seven (7)-day period. Also, the agreement requires half of the maintenance budget (\$10,000) to be paid to the University before the first day of class for each semester; however, in our review of six (6) semesters, five (5) payments received were late.

- The agreement states the University will be responsible for staffing the facility and the owner will reimburse the University for payroll and benefit costs related to three (3) specific positions, not including Resident Assistants, at stated rates of pay and benefit percentages. A review of payroll and fringe benefit amounts paid to employees and reimbursed by the owner identified discrepancies between the amounts stated in the agreement and the amounts actually paid. This could be seen as non-compliance; however, the University provides detailed reporting to the owner with each request for reimbursement which provides the name of the employee, rate of pay, fringe benefit rate and actual payroll expense. Therefore, we believe the parties are in agreement with the expense, but the documented agreement has not been updated.
- Some housing exceptions allowed by the University are not specified in the agreement or are not applied in compliance with the agreement. The agreement requires the University to implement a residency policy for students at the West Plains campus which requires students to reside on campus unless they “(a) have earned credit hours equal to or exceeding the credit hours required under the policy at the Springfield Campus; (b) are over the age of 21; (c) are married, or are the custodial parent of a minor child; (d) are unable to reside in student housing because of a medical condition; (e) lives with a parent or grandparent within the seven county service area for the West Plains Campus.”

We noted Springfield campus’ operating policy 5.13-4 titled, “Request an Exception to University Housing Policy,” allows students who have earned at least 27 credit hours to reside off-campus; however, the West Plains campus requires at least 30 hours. Also, the campus provides exception to those who take only online classes or enroll in six (6) hours or less per term. These additional exceptions are reasonable but are not included in the agreement.

- University personnel are responsible for periodically removing change from the laundry machines, depositing into a University bank account, and recording monies in the University accounting system. These monies are then periodically remitted to the owner. The agreement does not address this responsibility. During the term of this agreement, the University has removed, deposited, recorded, and remitted nearly \$15,000 of laundry monies.

While non-compliance was noted, no harm to either party was identified in the items selected for review. If the adopted procedures for payment of rent and reimbursements are agreeable, the parties should evaluate changing the agreement to align.

Recommendation

University management should work with the Office of the General Counsel and the owner to draft a revised Facilities Management Agreement which aligns with actual procedures regarding responsibilities of all parties in the operations of the Grizzly Lofts.

Management's Responses

Administration will work with the Office of General Counsel and owner to align the agreement with actual policy and procedures to assure compliance regarding responsibilities of all parties and specific timelines.

3. Communications

Communications between the University and the owner are not always timely, are not always complete or clear, and are not always documented to support approvals granted by the owner.

The agreement provides requirements for reports to be provided by specific dates to communicate various operations of the Grizzly Lofts; however, reporting is not always completed by the deadlines provided. For example, the agreement requires the University to provide a report of rents received by the 20th day of each month of each term. During our review of 21 months where reporting was required, reports were late for 13 months and no report was provided for six (6) months. Information from months with no report was included in the next report provided. Similar issues were noted with the reporting of payroll and marketing expenses.

In addition, the agreement requires the University, "obtain the consent of the 'owner' before commencing ... repairs or replacement" costing more than \$1,000. In our review of 20 expenses of more than \$1,000 each, 18 had no documented approval from the owner. University personnel explained that most of the communications with the owner were verbal and approval was received, just not documented. Also, reports of rents collected do not provide sufficient or clear information for the owner to determine charges assessed, collections received, refunds issued, and amounts outstanding.

To ensure compliance with the agreement and a clear understanding of the University's management of the facility, communications should be clear, complete, timely, and when approval is required, it should be documented and filed with the supporting documentation for the expense.

Recommendations

Provide required reports in a timely fashion, ensure approvals for expenses over \$1,000 are documented, and ensure all necessary information is provided to the owner in a clear and complete manner.

Management's Responses

Administration will adjust processes to ensure reports due are timely and complete per agreement. Approval for facility maintenance that exceeds \$1000 will receive prior approval and include approval documentation with reimbursement payment request.

**Appendix A
Campus Residency by Term**

Year	Term	Grizzly House	Grizzly Lofts	Campus Residents
2016	Fall	60	N/A	60
	Spring	47	N/A	47
	Summer	6	N/A	6
2017	Fall	59	N/A	59
	Spring	51	77	128
	Summer	3	0	3
2018	Fall	56	116	172
	Spring	44	85	129
	Summer	10	0	10
2019	Fall	54	133	187
	Spring	47	81	128
	Summer	2	0	2
2020	Fall	51	73	121
	Spring	47	59	106
	Summer	2	0	2
2021	Fall	30	77	107
	Spring	29	38	67
	Summer	Data not available at this time		

**Appendix B
Summary of Survey Responses**

In conjunction with our audit of the Facility Management Agreement, we also sent a four (4) question survey to the 38 tenants of the facility during the Spring 2021 term. We received eight (8) responses as follows:

Question 1:

Overall, how would you rate your stay at the Grizzly Lofts? (Provided 1-5 star options)

Average Rating 4.0



Question 2:

Would you recommend student housing at Grizzly Lofts to incoming students?

88% YES!! 13% No



Question 3:

Did you feel the University was responsive to your needs during your stay?

100% replied YES!

Question 4:

If you could change one thing about your stay at the Lofts, what would it be?
(Sample of responses is provided)

More activities, better rec. room

**Increased security... like cameras and signs
limiting access to the grounds to residents**

Healthier food options

Less restrictive policy on visitors.