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A Report on Formula Funding Reporting for 35 State Universities

August 16, 2000

Members of the Legislative Audit Committee:

To review the accuracy of formula funding reporting by state universities, the State Auditor's Office (Office) requested that all 35 public universities self-report enrollment data errors, and we audited enrollment data at Texas A&M University and Texas Tech University. We examined enrollment data for the base period semesters used to calculate funding for the 2000-2001 biennium, which included the Summer 1998, Fall 1998, and Spring 1999 sessions. None of the universities' self-reported errors exceeded the 2 percent error rate allowed by the General Appropriations Act, Article III-233, Section 19. Texas A&M University's errors were also within the 2 percent allowable error rate. The audit results for Texas A&M University are included in *A Follow-Up Audit Report on Management Controls at Texas A&M University* (SAO Report No. 00-003, October 1999).

The funding associated with Texas Tech University's (University) enrollment data errors was approximately \$3.7 million. The 2 percent allowable error rate for the University is equivalent to nearly \$3.6 million. The University exceeded the allowable error rate by \$127,315. Our audit also identified enhancements that should be made to the University's procedures for reporting enrollment data. The University generally agrees with our recommendations. Our recommendations and the University's responses are included in a letter we are issuing to University management.

Differences in the language of the Texas Education Code (Code) and the General Appropriations Act (Act) resulted in the Office and the University interpreting the terms "tuition" and "fees" differently. The Office's interpretation came from the Higher Education Coordinating Board's (Coordinating Board) definitions of "tuition" and "fees." These interpretations are important because they establish what types and amounts of tuition and fees a student must pay before a university may claim the related semester credit hours for formula funding purposes.

The Commissioner of the Coordinating Board accepted the University's interpretation of fees for this audit cycle but will work with the Legislature to obtain consistency between the Code and the Act. However, the Commissioner did not accept the University definition of tuition for this audit cycle. Because the Office used the Commissioner's definition of tuition during its audit of enrollment data, the University also disagreed with the results of the audit. We will send a letter to the Chairman of the House Appropriations Committee and the Chairman of the Senate Finance Committee to inform them of the different interpretations.

The attachment contains more details on the universities' self-reported errors and the different interpretations. We appreciate the universities' assistance during the audit. If you have any questions, please contact Dick Dinan, Audit Manager, at (512) 936-9500.

Sincerely,

A handwritten signature in black ink, appearing to read "Lawrence F. Alwin".

Lawrence F. Alwin, CPA
State Auditor

cbg/Attachment

SAO Report No. 00-038

Overall Conclusion

To review the accuracy of formula funding reporting by state universities, the State Auditor's Office (Office) requested that all 35 public universities self-report enrollment data errors, and we audited enrollment data at Texas A&M University and Texas Tech University. Eighteen universities submitted self-reported errors, none of which exceeded the 2 percent error rate allowed by the General Appropriations Act, Article III-233, Section 19. Audit testing showed that Texas Tech University exceeded the 2 percent allowable error rate. Texas A&M University's audit results were within the 2 percent allowable error rate. The audit results for Texas A&M University are included in *A Follow-Up Audit Report on Management Controls at Texas A&M University* (SAO Report No. 00-003, October 1999).

Section 1:

Different Interpretations of Eligibility Requirements for State Funding Exist

Differences in the language of the Texas Education Code (Code) and the General Appropriations Act (Act) resulted in the Office and Texas Tech University (University) interpreting the terms "tuition" and "fees" differently. The Office's interpretation came from the Higher Education Coordinating Board's (Coordinating Board) definitions of "tuition" and "fees." These interpretations are important because they establish for all universities what types and amounts of tuition and fees a student must pay before a university may claim the related semester credit hours for formula funding purposes.

The Commissioner of the Coordinating Board accepted the University's interpretation of fees for this audit cycle but will work with the Legislature to obtain consistency between the Code and the Act. However, the Commissioner did not accept the University's definition of tuition for this audit cycle. Because the Office used the Commissioner's definition of tuition during its audit of enrollment data, the University also disagreed with the results of the audit.

Using the revised criteria for fees, the University made approximately \$3.7 million in errors. The 2 percent allowable error rate for the University is equivalent to nearly \$3.6 million, which is 2 percent of state appropriations based on semester credit hour formula funding. The University exceeded the allowed error rate by \$127,315.

Table 1 on the following page shows that had the original criteria for fees been applied to the University's student records, the errors would have totaled more than \$7.3 million. The University would have exceeded the allowable error rate by \$3.8 million.

Table 1

| Audit of Texas Tech University Found That Errors Exceeded the Allowable 2 Percent Error Rate | |
|---|--|
| Results Using Revised Criteria | Results Using Original Criteria |
| Errors totaled \$3,685,422 (2.07 percent error rate) | Errors totaled \$7,370,843 (4.14 percent error rate) |
| Amount exceeding 2 percent totaled \$127,315 | Amount exceeding 2 percent totaled \$3,812,736 million |
| 5 instances of not collecting proper tuition and fees | 16 instances of not collecting proper tuition and fees |
| 6 instances of not assessing proper tuition amounts | 6 instances of not assessing proper tuition amounts |
| Different interpretations of student eligibility criteria resulted in a revision of the audit testing results for Texas Tech University. The University exceeded the allowable 2 percent error rate by \$127,315. | |

Source: State Auditor's Office audit of enrollment data submitted by Texas Tech University for formula funding purposes

Our audit identified problems with the University's procedures for reporting semester credit hour data for formula funding purposes. We are issuing a letter to University management that includes our recommendations for strengthening these procedures and the University's responses. The University generally agrees with our recommendations. A summary of our recommendations and the University's responses are included in the University's letter (see page 8).

The Coordinating Board's letter (see page 6) provides its interpretations of the tuition and fees that universities should collect for students' data to be eligible for formula funding purposes for this audit cycle. The University's letter (see page 8) explains its position concerning the interpretation of tuition.

Section 2:

Results of Unaudited Self-Reported Errors

Of 35 universities, 18 submitted self-reported errors, none of which exceeded the 2 percent allowable error rate. The funding associated with these errors totaled approximately \$1.3 million (\$1,079,715 in over-funding and \$249,028 in under-funding). We contacted the remaining 17 universities to confirm that they had no enrollment data reporting errors to self-report. We commend the universities for voluntarily reporting instances of noncompliance.

For each self-reported error, the universities included course identification information, the semester in which the class was offered, classification level, the number of semester credit hours reported for the class, the reason for the error, and whether the semester credit hours were over-reported or under-reported. To determine the amount of the appropriation associated with the error, we identified the appropriate funding amount for each error and applied it to the semester credit hours reported (see Table 2). We did not audit the universities' self-reported errors.

Table 2

| Amount of Funding Associated With Self-Reported Errors | | | |
|---|---------------------------------------|--|--|
| University | Amount of Self-Reported Errors | Amount of Self-Reported Errors for the Biennium | Amount Allowed by 2 Percent Error Rate for the Biennium |
| Angelo State University | \$ 328 | \$ 657 | \$ 659,594 |
| Lamar University - Beaumont | (4,049) | (8,098) | 921,110 |
| Midwestern State University | 643 | 1,287 | 582,097 |
| Sam Houston State University | (6,123) | (12,246) | 1,313,683 |
| Southwest Texas State University | 18,943 | 37,887 | 2,360,327 |
| Stephen F. Austin State University | 37,499 | 74,998 | 1,401,899 |
| Texas A&M University | (106,986) | (213,972) | 6,883,641 |
| Texas A&M University-Kingsville | (20,193) | (40,386) | 736,509 |
| Texas A&M University-Commerce | (16,966) | (33,932) | 1,039,9 05 |
| Texas A&M University-Corpus Christi | (7,279) | (14,558) | 775,532 |
| Texas A&M International University | (1,683) | (3,366) | 314,864 |
| Prairie View A&M University | (48,226) | (96,451) | 784,286 |
| Texas Woman s University | (271,890) | (543,780) | 1,697,051 |
| The University of Texas at Austin | (52,801) | (105,602) | 8,769,597 |
| The University of Texas at Dallas | 20,473 | 40,945 | 1,670,432 |
| The University of Texas at El Paso | (653) | (1,306) | 1,664,804 |
| The University of Texas-Pan American | 46,627 | 93,255 | 1,308,693 |
| West Texas A&M University | (3,009) | (6,019) | 723,192 |
| Net Total | \$ (415,344) | \$ (830,688) | \$ 33,607,216 |

Source: State Auditor s Office analysis of the unaudited self-reported error data submitted by the individual universities. All amounts have been rounded to the nearest dollar. Amounts in parentheses represent over-reported semester credit hours, which resulted in over-funding of formula appropriations.

Objective, Scope, and Methodology

Objective

The objective of the biennial formula funding audit is to determine whether universities are in compliance with the Coordinating Board Rules and Regulations, Article III of the General Appropriations Act, and provisions of the Texas Education Code for the purpose of receiving formula funded state appropriations. The semester credit hour variable affects approximately 81 percent of the 2000-2001 formula-driven appropriations for universities.

We determined compliance with requirements by examining the accuracy of enrollment data submitted by the universities. As a result, we are helping to ensure that these universities receive only those appropriations they are eligible to receive. A university may be required to return to the State's General Revenue Fund any amount that exceeds the allowable 2 percent error rate. However, past audit results indicate that the universities generally maintain an error rate below the 2 percent allowable error rate.

Scope

The scope of this audit focused on the accuracy of semester credit hours used to allocate appropriations to each university. Semester credit hours are reported to the Coordinating Board in the *CBM-004 Class Report* and *CBM-001 Student Report*.

All universities that receive semester credit hour formula funding appropriations are subject to audit for compliance with the Texas Education Code, General Appropriations Act riders, and the Coordinating Board's Rules and Regulations. This year's audit procedures at the universities selected for audit consisted mainly of testing in the following areas:

- Student Classification
- Residency
- Tuition Exemptions and Waivers
- Payment of Tuition and Fees
- Adds, Drops, and Withdrawals

Verifying these items allowed the Office to attest to the accuracy of reported semester credit hours. We tested enrollment data for the base period semesters used to calculate funding for the 2000-2001 biennium, which included the Summer 1998, Fall 1998, and Spring 1999 sessions.

In 1997, the 75th Legislature began allowing universities a maximum reporting error rate of 2 percent of their biennial appropriations. This led the Office to select only a sample of universities for testing based on risk assessment. As a result, the importance of self-monitoring by the universities has increased. Based on our risk

assessment, the Office selected 2 of the 35 universities (Texas A&M University and Texas Tech University) for testing. The results of the formula funding audit at Texas A&M University are contained in *A Follow-Up Audit Report on Management Controls at Texas A&M University* (SAO Report No. 00-003, October 1999). We will assess risk each biennium to determine the level of audit work to be performed in the future.

Methodology

The methodology we used for this audit included:

- Using statistical sampling to test the accuracy of the reported semester credit hours used in calculating appropriations
- Reviewing self-reported corrections provided by the universities and calculating the dollar impact on appropriations

It would not be cost-effective to perform an audit of all semester credit hour data. For this reason, we used statistical sampling to estimate the accuracy of the total population of semester credit hours submitted by each university for funding. Statistical sampling procedures provide unbiased estimates of semester credit hours that are improperly reported.

We drew the audit sample from university-certified data provided by the Coordinating Board. Because the Coordinating Board does not allow universities to make changes once the data has been certified, prior to our audit testing, we encouraged universities to notify us of any errors they identified after certification.

Disclosing known instances of noncompliance is usually to a university's benefit. The process of self-reporting known errors allows universities to avoid more significant penalties for errors, as the dollar amount associated with self-reported errors is based on the appropriations universities receive for reporting those semester credit hours. On the other hand, when errors are found during audit testing, these errors are projected to the total population of semester credit hours and have a substantially greater effect on a university's enrollment funding.

This audit was conducted in accordance with generally accepted government auditing standards.

Coordinating Board Response



TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

Pamela P. Willeford
CHAIR
Martin Basaldua, M.D.
VICE CHAIR
Jodie L. Jiles
SECRETARY OF THE BOARD

Corrected Letter
May 4, 2000

William C. Atkinson
Dolores Hutto Carnith, M.D.
Ricardo G. Cigamoa, M.D.
Kevin P. Ebofi
Raul B. Fernandez
Robert I. Fernandez
Cathy Obenomi Green
Gerry Griffin
Carey Hobbs
Steve Late
Adair Margo
Leonard Rauch
Hector de J. Ruiz, Ph.D.
Robert W. Shepard
Terdema L. Ussey II

Mr. Dick Dinan
State Auditor's Office
206 East 9th Street, Suite #1900
Austin, TX 78701

Dear Dick:

Several weeks ago, you talked to us regarding my interpretation of Section 16, page III-233 of the General Appropriations Act, which speaks to the collection of tuition and fees at general academic institutions. The conversation was in connection with the enrollment audit of Texas Tech University.

At that time, we also agreed to do a brief survey of the tuition and fee collection practices of some of our major universities.

The rider in the General Appropriations Act uses more specific language about fees than Section 54.007 of Chapter 54 of the Education Code. The Legislature's wording in the General Appropriations Act appears to me to allow institutions to limit collection of tuition and fees from students on the installment plan to half of tuition -- which would include base tuition, designated tuition and board-authorized tuition -- and laboratory fees.

Based on our informal survey, Texas Tech's policies are different from those of The University of Texas at Austin, the University of Houston, and the University of North Texas, but they do seem to be similar to those of Texas A&M University. However, I understand Texas A&M's practices are essentially identical to the other institutions.

Nevertheless, I think it would be appropriate to assume that Texas Tech has complied with Section 16 if they have collected from students on the installment plan half of the tuition and laboratory fees by the 20th class day.

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ATTACHMENT

Mr. Dick Dinan
May 4, 2000
Page 2

We will work with the 77th Legislature to obtain consistency between the Education Code and the General Appropriations Act. My belief is that changing the wording in the General Appropriations Act to conform to the Education Code would be appropriate.

Finally, you asked if the 2 percent error rate should be applied to the whole appropriation or only the instruction and operations portion of the appropriation that is affected by the enrollments that you are auditing. The latter choice seems appropriate.

Thank you for being so patient in waiting for our response to your inquiry. I enclose the results of our survey for your reference.

Cordially,



Don W. Brown

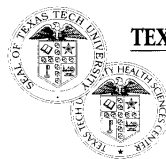
enclosure

cc: Mr. Jim Brunjes, Texas Tech University

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Management's Response



TEXAS TECH UNIVERSITY

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

JIM BRUNJES
Chief Financial Officer

Box 42016
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(806) 742-9000
(806) 742-2195 (FAX)

July 17, 2000

Mr. Dick Dinan
Audit Manager
Texas State Auditor's Office
Robert E. Johnson Bldg. Suite 4.224
P.O. Box 12067
Austin, Texas 78711-2067

Dear Mr. Dinan:

Texas Tech University questions the accuracy of the State Auditor's rate-of-error calculations based upon the methodology employed and what we believe the intent of the audit should be. Specifically, the Auditor should not have factored "board-authorized tuition" (graduate tuition) or "institutional tuition" (designated tuition) into its funding formula calculations. As a result of this error, the Auditor's report erroneously classified six students as "incorrect tuition charged exceptions." See Auditor's Summary of Tuition-Payment Exceptions Initial and Expanded Samples, p.1.

The State Auditor's audit serves two very important functions. It determines whether an institution has received correct formula appropriations and whether an institution has reported the proper amount of educational and general income to finance that portion of the legislative appropriations. If the auditor finds differences in the institution's reported data, then the General Appropriations Act (Act) directs the Coordinating Board to recalculate the institution's appropriations. Article III-233, Section 19. By including board-authorized tuition and institutional tuition in its funding formula calculations, the Auditor has compromised both of the audit's functions.

The audit report identifies Article III-233, Section 16 of the Act and Section 54.007 of the Education Code (Code) as the controlling legal standards for tuition and fees. It is important to note that both of these provisions deal with the *collection* of tuition and fees, as opposed to the *computation* of appropriations, which is the focus of Article III-233, Section 19 of the Act. Institutional appropriations are computed by applying clearly defined funding formulas set forth in Article III-237, Section 34 of the Act. The formulas include semester credit hours and estimated local and general income, as defined by the Code §61.009(c). The estimated local and general income element of the funding formula consists primarily of "base tuition" (state minimum tuition), as established by the Code §54.0512, plus "lab fees," as established by the Code §54.501. Estimated local and general income does not, as the Auditor asserts, include board-authorized or institutional tuition.

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The audit report relies on a letter issued by the Coordinating Board to support its erroneous method of calculating the University's rate-of-error. The report states, "the Coordinating Board determined that, given the inconsistency of the language between the Act and the Code, Section 16 will apply in this case." Section 16 of the Act does apply to the collection efforts of educational and general income. It should not, however, apply the computation of the funding formula under Section 19 of the Act. On May 4, 2000, the Coordinating Board issued a letter stating "the General Appropriations Act appears ... to allow institutions to limit collection of tuition and fees from students on the installment plan to half of tuition – which would include base tuition, designated tuition, and board-authorized tuition – and laboratory fees." Thus, in the collection context, the Board believes that "tuition" should include board-authorized and institutional tuition. To use this opinion by the Coordinating Board to expand the definition of tuition subject to the audit in Section 19 of the Act and to include this expanded definition of tuition in the general appropriations act are contrary to the law regarding the legal effect of riders. It is well established that a rider to the general appropriations act is valid if its only effect is to 'detail, limit, or restrict the use of the funds...therein appropriated.' A rider may not repeal, modify or amend an existing general law. Attorney General Opinion MW-389. A rider may not embody matters of general legislation. *Moore v. Sheppard*, 192 S.W.2nd 559(Tex. 1946); see also Attorney General Opinions JC-0178 (2000); MW-585 (1982); MW-51 (1979).

The broad definition of "tuition" cannot be applied to formula appropriations. In fact, to define tuition to include board-authorized and institutional tuition in the appropriations process runs contrary to Texas law. The statutes that created both board-authorized and institutional tuition specify that they should not "be accounted for in an appropriations act in such a way as to reduce the general revenue appropriations to an institution." The Code §54.008(d); see *Id.* at 54.0513(c). The law is clear, then, that neither of these tuitions is to be used to calculate a university's funding under the General Appropriations Act.

Despite this fact, the State Auditor factored errors based on board-authorized tuition into its recalculation of the University's appropriations. Specifically, the report considered six students who were charged the wrong amounts of board-authorized tuition in its rate-of-error calculations. Factoring these six mistakes into appropriations calculations is clearly erroneous. These mistakes come into play only when considering Texas Tech University's collection efforts – the University cost itself revenue that would have been generated by properly charging for board-authorized tuition. The six mistakes did not, however, result in the University receiving additional formula funding or general revenue in the appropriations process. The correct number of semester credit hours and the correct amount of base tuition and lab fees were collected and reported for these six students. Consequently, the State Auditor's inclusion of the six board-authorized tuition mistakes in its appropriations calculations significantly distorted the University's rate-of-error. If these factors are removed from the appropriations calculations, then it is clear that Texas Tech University is well within the 2% margin of error.

Texas Tech has reviewed the audit recommendations and respectfully submits the following management responses:

Identify students who have not paid at least one-half the required amount of tuition and fees and eliminate them from enrollment data reports submitted to the Coordinating Board for funding. For example, all students with a system-generated code of "X" may not have met the minimum payment requirements to be eligible for funding.

Texas Tech University has reviewed the computer codes for the setting of this code of "X". The required tuition and fees will be calculated. The student will then be required to "pay" one-half of this amount by the official payment date. If the student does not "pay", the code will be set to "X".

Consider discontinuing the use of manual payment codes. If they are used, the University should limit authorization and ensure their judicious use.

Texas Tech University believes manual codes are needed to accurately reflect situations where students should be counted for enrollment purposes, e.g. pending financial aid. Therefore, a new process has been initiated where Institutional Research will now require re-review and approval of all manual codes used to certify student enrollments.

Ensure the collection of tuition and fee charges incurred by the student for all courses registered through the 20th class day (for regular semester length courses).

Texas Tech University will initiate an extra billing for all classes added before the 12th Class Day. The notice will require payment of the additional funds by the 20th Class Day.

Texas Tech University believes that the State Auditor should review this and through the Coordinating Board statewide guidance should be provided for courses added after a student has been initially billed and paid.

Perform a more extensive follow-up review of transferred data to ensure automated tuition tables contain the appropriate amounts.

Texas Tech University agrees.

Highlight those student accounts with manual codes and remove ineligible students prior to submitting enrollment data for funding purposes.

Texas Tech University agrees.

In addition, the University should consider self-reporting errors that come to management's attention after the enrollment data has been certified.

Texas Tech University agrees.

Texas Tech University appreciates the professional courtesy extended by the State Auditor's Office during this audit.

Sincerely,


Jim Bruges
Chief Financial Officer

xc: Chancellor John T. Montford
President-elect David Schmidly
Ms. Fran Grogan
Governmental Relations

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