



A Legislative Summary Document Regarding The University of Texas at Austin

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State Auditor's Observations

The University of Texas at Austin's (University) revenue estimates may be overly conservative. For 2002, total enrollment increased, retention rates increased, and the proportion of nonresident students was higher than estimated, producing \$8.8 million in additional tuition revenues. This represents approximately 10 percent of the University's total Education and General Income.

Unlike state agencies, university performance measures do not directly tie to strategies and, therefore, relationships between funding and performance cannot be readily drawn.

Prepared for the 78th Legislature
by the State Auditor's Office

January 2003

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This is not an audit report and, with the exception of any audit report summaries, the material in this document has not been subjected to all of the tests and confirmations performed in an audit.

The University of Texas at Austin

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Financial Profile

Revenue Projections

When comparing the University of Texas at Austin's (University) revenue presented in the 2001 and 2002 Legislative Appropriations Request (LAR) with the Annual Financial Report (AFR) and operating budget, we noted that the University underestimated tuition and indirect cost recovery and overestimated interest income.

- For 2002, the total enrollment increased, retention rates increased, and the proportion of nonresident students was higher than estimated, producing \$8.8 million in additional tuition revenues. The University budgeted conservatively in these areas as a safety net for overall income due to the difficulties in estimating these enrollment factors.
- In addition, estimates exceeded interest income by \$1,740,000.

To project future revenue from its various sources, the University uses historical data and a number of different variables depending on the type of revenue projected. Among the variables are anticipated changes to tuition and fee rates, resident/nonresident student mix, admission policies, federal grants, interest rates, and semester-to-semester enrollment. However, in regard to tuition revenue, the University indicated that most of its forecasting efforts went into determining total fall/spring enrollment rather than the resident/nonresident mix. As a result, the University underestimated tuition revenues.

Expenditure Analysis

The University's LAR expenditure projections are reasonable and supported by adequate documentation. The University estimates expenditures using historical data and adjusts for variables such as legislated salary increases, capital improvements and repairs, debt requirements, and operational efficiencies.

The table below shows the University's expenditures by Comptroller of Public Accounts category as reported by the University in the Uniform Statewide Accounting System (USAS) for appropriation years 2000, 2001, and 2002. This data has not been audited. It is provided for informational purposes to show how the University has spent its funds.

However, the financial information recorded in USAS and presented here includes only expenditures paid from funds held in the State Treasury. These expenditures do not include expenditures paid from funds held locally by the University. As a result, variances from year to year may reflect internal funding decisions and therefore may not be comparable. We obtained explanations from the University for fluctuations across years that appeared unusual.

Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Salaries and Wages	\$331,834,319	\$345,895,790	\$355,785,606
Employee Benefits	66,720,175	64,870,609	75,878,398
Interfund Transfers/Other (Note A)	30,572,373	26,204,671	24,265,563
Other Expenditures	14,013,949	15,233,356	15,782,192
Public Assistance Payments (Note B)	11,412,152	13,191,893	21,353,771
Capital Outlay (Note C)	9,604,733	12,909,759	6,991,462
Communications and Utilities	6,303,962	11,125,399	11,226,107
Supplies and Materials	5,495,060	6,113,754	5,930,742
Rentals and Leases	1,913,909	1,796,849	1,646,305

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Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Repairs and Maintenance	1,588,127	2,930,068	3,892,069
Professional Services and Fees	1,353,361	1,500,196	2,466,542
Printing and Reproduction	1,126,712	1,107,921	1,057,753
Travel	586,916	1,201,436	935,023
Claims and Judgments	1,500	83	0
Payment of Interest/Prompt Payment Penalties	5,663	63,258	23,562
Total Expenditures	\$482,532,911	\$504,145,042	\$527,235,095

Source: USAS - All funds including appropriated, unappropriated, and non-appropriated as of November 30, 2002.

Note A - Interfund Transfers may include transactions and adjustments made by the Comptroller of Public Accounts, as well as transfers between funds within the University and transfers out to The University of Texas System or other state agencies. According to management, most of the transfer balances relate to bond payments and tuition revenue balance forwards.

Note B - The category of Public Assistance Payments primarily represents Grants to Students.

Note C - Prior to fiscal year 2002, items that cost more than \$1,000 were considered capital assets and their costs were considered capital outlay. In fiscal year 2002, the threshold increased to \$5,000, meaning that expenses for items that cost less than \$5,000 are now accounted for in other categories, such as supplies and materials.

Key Findings from Previous Audits and Reviews

January 1, 2001–December 31, 2002

State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2001¹

(February 2002)

Cash Management

The cash position report was validated and appears to be extracting the expense and cash draw information correctly from the general ledger. However, The University of Texas at Austin (University) did not retain copies of any of the cash position reports for fiscal year 2001 and such documents could not be reconstructed; therefore, no compliance work could be performed. We were unable to verify that expenses were incurred prior to draw requests from the federal agencies for a sample of cash draws selected for compliance procedures. According to the University's schedule of federal awards, approximately \$214,612,000 of research and development expenses were noted to have been incurred during fiscal year 2001.

Status of Audit Recommendations as of November 30, 2002

KPMG LLP will report on the status of these recommendations in the federal portion of the statewide single audit for fiscal year 2002. This report is expected to be released in Spring 2003.

¹ Results from only the most recent statewide single audit are included in this Legislative Summary Document. KPMG LLP conducted the federal portion of that audit under contract with the State Auditor's Office. Only excerpts from the KPMG audit report are presented above. For the full text of the KPMG audit report, please see www.sao.state.tx.us/Reports/report.cfm?report=2002/02-345.

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Allowable Costs

In a sample of eight allowable costs charged for salary and wages selected for test work, four were not supported by a time sheet or personnel effort report. The University indicated that these individuals worked solely on one award, but no signed and dated personnel effort report was available. The questioned cost was \$14,738.00.

Matching and Program Income

The University did not have an established procedure for monitoring matching grants and grants that generate program income.

Procurement, Suspension, and Debarment

Of a sample of 30 procured items, 2 were greater than \$100,000. One of these two did not have a signed vendor certification noting that the vendor was not suspended and debarred.

Special Tests and Provisions - Student Loan Repayments

For students with Perkins loans, the University is required to conduct exit counseling with the borrower either in person, by audiovisual presentation, or by interactive electronic means. Schools are required to conduct the counseling shortly before the student graduates or drops below half-time enrollment. For borrowers who withdraw from school, exit counseling must be provided within 30 days after learning that the borrower has withdrawn.

The University prepares a "graduating seniors list" after the deadline to apply for a degree has passed each semester. It then generates and mails letters asking for exit interviews to be set up. If the student does not comply, exit information packages are mailed to the student. Eight spring 2001 graduates were reviewed, and no exit interview information for these graduates was available. It was noted that the students did not complete their counseling prior to graduation; therefore, their packets were printed to be mailed. However, as of November 2001, the packets were not mailed. In addition, three of eight fall 2000 graduates had not yet returned their exit interview packets.

Performance Management

Performance Indicators Used by Management

In addition to Legislative Budget Board performance measures, The University of Texas at Austin (University) uses internally generated performance measures, which are aligned with measures reported in the Legislative Appropriations Request (LAR), to evaluate the achievement of mission, goals, and objectives. University management reports internally generated measures to the University President, Provost, and departmental personnel, and the President presents significant performance information to the Board of Regents. The University shares performance information such as faculty salaries, enrollment trends, and retention rates with peer universities through the Association of American Universities Data Exchange.

Estimating Performance Targets

The University appears to base projected performance targets on reasonable premises and methods. The University distributes responsibility for preparing the targets used in the LAR among university personnel, who use historical data with conservative projections. Unlike state agencies, university performance measures are not directly tied to strategies, and therefore relationships cannot readily be drawn to funding and performance. However, the University uses established benchmarks for most measures. The Provost reviews the targets for appropriateness.

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Quality Assurance Team Reviews

Conducted by the Legislative Budget Board and State Auditor's Office

Canceled Projects

Quality Assurance Team Annual Report – January 2003

The University of Texas at Austin canceled the following projects, each at a total cost of \$0:

- Academic Computing — Acquire Digital Library Content
- Academic Computing — Digital Library Delivery System
- Academic Computing — High Performance Computing
- Academic Computing — Network Master Plan
- Academic Computing — Student Portal Project
- Academic Computing — Technology Classrooms
- Academic Computing — Virtual K–12

Disaster Preparedness

We gathered information from The University of Texas at Austin (University) on plans in place to provide continued operations and services in the event of a disaster. Standard audit criteria for disaster preparedness have not been established; therefore, we are not evaluating the University's plans. Our objective was only to provide the information reported by the University.

The University has a Disaster Recovery Plan for information technology recovery and an Emergency Plan in draft. The plans address emergencies such as bad weather, utility failure, structural failure, bomb threats, and civil unrest. A command center and a core crisis management team are identified.

The Disaster Recovery Plan identifies three back-up sites within approximately two miles of one another, which could be a problem in an emergency that affects a broad geographic area. The University plans to return to manual accounting processes in the case of system failure.

The University approved its Disaster Recovery Plan in March 2000 and anticipates that a revision will be completed by spring 2003. The final Emergency Plan will include condensed information relative to information technology recovery with a reference to details in the Disaster Recovery Plan.

Information System Vulnerability Assessments

The State Auditor's Office (SAO) and/or the Department of Information Resources performed one or more information system vulnerability assessments at The University of Texas at Austin between January 2000 and November 2002. Detailed results of this work are confidential under Texas Government Code, Section 2054.077(c). The SAO's Legislative Summary Document titled "Information System Vulnerability Assessments" provides general information about the results of information system vulnerability assessments.