

A Management Control Audit of

The University of Texas at El Paso



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Key Points Of Report

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Key Facts and Findings

- Management has generally established systems for monitoring and controlling University operations. However, it needs to strengthen systems in the following areas:
 - Information systems lack certain planning, purchasing, and security controls which are important to ensure that management has information necessary to efficiently facilitate student services and decision making.
 - Increasing transfers into athletics from other sources are reducing funds available for essential services and contributing to a decline in University financial reserves. Athletics expenditures have exceeded revenues (after student service fees) by an average of \$1.1 million for each of the past three years.
 - Nearly one-fifth of undergraduate students and half of entering students are enrolled in developmental math courses. The University faces a significant challenge in meeting extensive student needs within this program.
- Management has established comprehensive controls to monitor grant growth. The University has effectively obtained external funding during a period of scarce state resources. External grants have increased \$20 million annually since 1989.

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Table of Contents

Executive Summary 1

Section 1:

**Information Systems Lack Certain Planning,
Purchasing and Security Controls** 3

Existing Controls Do Not Provide Direction and Accountability
for Achieving Information System Goals 3

Student Information System is at Risk of Not Meeting
University Needs 5

Lack of Oversight Increases Risk of Inefficient
Computer-Related Purchases 8

Access to Some Sensitive Data is Excessive 9

Section 2:

**Financial Instability of Athletics Diminishes University
Resources** 10

Consistent Operating Losses in the Athletics Program
Reduce Funds Available for Essential Services 10

The University Used Significant Amounts of Other Funds
Without Approval of the Board of Regents 15

The University Expanded Controls Over Fund-Raising and
Level of Accountability for Athletics Program Budgets 17

Section 3:

**The University Faces a Significant Challenge in its
Developmental Math Education Program** 17

Table of Contents, concluded

Section 4:

Comprehensive Controls Have Been Established to Monitor Grant Growth 21

The University has Effectively Obtained External Funding
Sources 21

Procedures Have Been Established for Proper Oversight of
Increased Funding 21

Comprehensive Procedures Address Federal Audit
Findings 21

Appendices

1 - Objective, Scope and Methodology	23
2 - Background Information	26
2.1 - University Financial and Enrollment Information	26
2.2 - University Profile	28
3 - Reference List	30

Executive Summary

Management has generally established systems for monitoring and controlling its operations. However, systems governing information resources, athletics, and developmental education require improvement to ensure that the University's mission is effectively and efficiently achieved.

Information Systems Lack Certain Planning, Purchasing, and Security Controls

The University's information systems lack certain planning, purchasing, and security controls which are important to ensure that management has information necessary to efficiently facilitate student services and decision making. Priority projects have been postponed, while projects with no documented priority have been implemented. Consequently, the University's student information system is at risk of not meeting the growing needs of students or expectations of external oversight entities. In addition, lack of formal procedures for computer-related expenditures increases the risk for inefficient, incompatible purchases of equipment and software. Finally, some critical information is not restricted to only those who need it for job duties, increasing the risk of unauthorized changes to data relied upon for daily operations.

Financial Instability of Athletics Diminishes University Resources

Continued losses in the athletics program have reduced funds available for essential services. For each of the past three years, athletic program expenditures have exceeded revenues by an average of \$1.1 million after student service fees have been applied. To alleviate deficits, management has begun subsidizing athletics with transfers from designated

(discretionary) funds and has initiated efforts to improve financial controls over the program. However, transfers into athletics over the past two years have contributed to a decline in financial reserves which the University has historically relied upon to pay for debt, construction, and other key services. Some of the transfers were made without approval of The University of Texas System Board of Regents.

The University Faces a Significant Challenge in its Developmental Math Education Program

Nearly one-fifth of undergraduate students and half of entering students are underprepared for college-level math and enrolled in developmental courses. As a result, the University faces the challenge of facilitating students' successful transition from developmental programs into mainstream college-level work. The University has identified this challenge and begun efforts to address it. However, it can make further improvements to help more of these students progress into undergraduate programs and the growing number of graduate programs.

Comprehensive Controls Have Been Established to Monitor Grant Growth

To support its mission of providing educational opportunities and community outreach to the West Texas border region, University management has effectively obtained external funding during a period of scarce state resources. Management has taken an aggressive approach to monitoring its grants, which have increased an average of \$20 million annually since 1989. Management has developed a comprehensive control system that

Executive Summary

monitors the entire grant process through proposal development, negotiations, award, and expenditures.

Summary of Management's Responses

Enclosed are the detailed management responses to the findings and recommendations contained in the management control audit recently conducted at the University of Texas at El Paso. Although we concur with many of your recommendations, we remain concerned with some of the report's conclusions which appear to go beyond the facts as we know them.

Accordingly, we have responded to your recommendations and added, where appropriate, comments to clarify your findings.

We thank you and your staff for your patience and cooperative attitude in working with us on this audit.

Summary of Audit Objective and Scope

The objective of this audit was to evaluate the existing and planned management control systems within the University and to identify strengths and opportunities for improvement.

The scope of the audit included consideration of the University's:

- information systems
- financial controls
- institutional effectiveness
- planning

Section 1:

Information Systems Lack Certain Planning, Purchasing, and Security Controls

The University's information systems lack certain planning, purchasing, and security controls which are important to ensure that management has information necessary to efficiently facilitate student services and decision making. Planned priority projects have been postponed, while projects with no documented priority have been implemented. Consequently, the University's student information system is at risk of not meeting the needs of students and the expectations of oversight entities. In addition, lack of formal procedures for computer-related expenditures increases the risk of inefficient, incompatible purchases of equipment and software. Finally, some critical student financial and academic information is not restricted to those who need it for job duties, increasing the risk of unauthorized changes. These information resources problems stem from a lack of established agreement regarding approach to priorities, lack of centralized oversight over computer-related purchases, and fragmented assessment and planning.

Section 1-A:

Existing Controls Do Not Provide Direction and Accountability for Achieving Information System Goals

Planned information system projects rated as high priority have been postponed, while projects assigned no priority have been implemented. Planning processes are fragmented, and accountability for tracking achievement of goals is unclear. Overall lack of direction delays improvements in information systems, affecting critical student and administrative services.

The University has not implemented most of its established information resources priorities, as reflected in Figure 1.

Figure 1

The University has not implemented most of its established information resources priorities

Projects Proposed	Strategic Plan	Operating Plan Priorities	Projects Implemented
Replace/Improve Student Information System	X	1	No
Upgrade Direct Access Storage Devices	X	2	Yes
Integrate Imaging System		3	No
Integrate Video System		4	No
Install Facilities Management System			Yes
Install Student Financial Aid System			Yes

Source: *Information Resources Strategic Plan*, The University of Texas at El Paso, 1992
Operating Plan Submitted to the Department of Information Resources, The University of Texas at El Paso, 1993

In addition, implementation of unprioritized projects resulted in increased costs for the University. In the fall of 1992, management purchased an automated financial aid system at a cost of \$130,000 in order to avoid increased charges from the vendor responsible for the University's financial aid processing at that time. The new financial aid system was incompatible with the University's existing student information system. The University expended additional resources to modify the financial aid system, which was not operational until the fall of 1993.

A fragmented planning process also contributes to the lack of direction and accountability for information resources. There is no consistent mechanism for assessment, prioritization, and tracking of information system needs. Over the past few years, three different committees have been formed or proposed to assume partial responsibility for information resources planning:

- The Information and Telecommunication Advisory Committee (ITAC) was established in 1991 with the charge of identifying immediate, critical technology needs university-wide. This team consisted of administrators, academic personnel, and technical directors. Meeting minutes indicate that committee members were unsure of their role on the committee, and attendance was irregular. The committee was disbanded in January 1994.
- The Technology Team replaced ITAC in January 1994. This team consisted of only technical directors who worked toward development of advanced, futuristic technology plans for the University. This committee is still operating.

- The Blue Ribbon Ad hoc Technology Commission was proposed for implementation in August 1994, but has not yet been established. The purpose of this commission is to gather specific data on user needs and forward the information to the Technology Team.

None of the former or current committees have been able to effectively prioritize or monitor achievement of goals. The absence of clearly defined, comprehensive authority for assessing critical needs inhibits accountability for achievement of automation goals and control of automation processes.

Section 1-B:

Student Information System is at Risk of Not Meeting University Needs

The Integrated Student Information System (ISIS) does not efficiently provide information for the University's 17,000 students. As a result, significant functional tasks relating to student assessment, advising, and processing are not automated, including:

- Degree Auditing: Although two colleges within the University have developed automated systems, over 8,000 students are subject to a manual, time-consuming analysis of their transcripts and degree requirements. There is no assurance that these students are advised regularly on their academic progression.
- Credit Transfer Evaluation: The Enrollment Services Department must evaluate transfer courses manually before students can register. During the fall of 1993, 45 percent of applicants accepted into the University were transfer students. During the 1993 summer semester, 74 percent of new undergraduate students enrolled were transfer students from community colleges. Manual evaluation prolongs student processing and is an inefficient use of staff.
- Report Writing Function: The student information system cannot generate customized reports from its data base. As a result, the University uses special software to perform this function. According to the Enrollment Services Department, this software does not generate accurate reports and cannot be relied upon for analysis and decision making. When the software was used to extract student enrollment listings for a particular time period, it provided different information each time the report was generated.

In addition, the student information system cannot meet the future demands of external oversight entities, increasing the risk for potential noncompliance with their guidelines. The University has volunteered for a pilot review by the Southern Association of Colleges and Schools, the University's primary accreditation oversight agency. This review will emphasize the evaluation of institutional effectiveness. To facilitate this review, which is scheduled for 1996, the University will have to provide additional performance and assessment data which the current student

information system cannot store or process. Furthermore, the Texas Higher Education Coordinating Board has recommended that universities evaluate high school transcripts as a basis of student admissions. This evaluation can only be efficiently performed through an automated process.

The University has been unable to modify the system and has had to install additional software, such as the report writing function described above, to meet immediate and projected demands. The system was purchased in 1982 and was upgraded in 1985 and 1987, primarily to facilitate student registration. However, the vendor stopped providing software enhancements and maintenance for the system in 1987. The University has not been able to obtain in-house personnel with the expertise to upgrade the system. While four positions for system maintenance have been filled, four positions for system development remain vacant.

The inability of the University to establish a consensus on an approach to implementation has impacted its ability to upgrade or replace the system. Problems regarding the reliability and flexibility of the system have been documented since 1985. The University's self-evaluations and strategic and information resources plans consistently rank improving the system as a primary automation goal. The University has also identified preferred features for a new student information system but, at the time of the audit, had not decided whether to buy a system currently marketed or develop its own system. Consequently, budget decisions regarding upgrading or replacing the system have been deferred.

Recommendation:

We recommend the University re-evaluate information resources priorities and establish a clear process regarding how to address them. This would include modifying existing plans to reflect any changes in goals or priorities so that effective tracking and communication are facilitated.

Management's Response:

We concur that an ongoing review of information resources priorities is critical to enable UTEP to capitalize on new opportunities that present themselves, and to achieve progress within the context of the severe financial constraints within which we must operate. Efforts are made to solicit broad-based input in the establishment of such priorities. Although there may be occasional differences of opinion concerning information technology options, there has generally been a high degree of management consensus concerning overall directions and priorities.

The review of information resources priorities occurs on an ongoing basis at UTEP, and modifications have been made in existing plans to reflect changes in priorities. Changes in the 1993 Operation Plan submitted to the Department of Information Resources (DIR) were, in fact, submitted to the DIR for approval. The goal of implementing an integrated imaging system, for example, was withdrawn because its projected cost far exceeded available resources. The integration of video technology

has not been postponed, as was suggested in the report; in fact, it is an ongoing developmental process, with recent major success achieved in video teleconferencing capability. In the case of the implementation of the Facilities Management Services System and the installation of the Student Financial Aid System, the institution responded quickly and constructively to a changing environment (e.g., reauthorization by Congress of the Higher Education Act) by shifting its priorities.

We also concur that the student information system must be continuously upgraded to keep pace with growing enrollment and data reporting requirements. Numerous modifications of the current systems have, in fact, been made during the past several years. Delays in replacing the entire system have not resulted from a lack of management consensus, nor from shifting priorities; rather, resource limitations have forced us to be extremely cautious in making a commitment to an expenditure of this magnitude. There has been a broad-based commitment to upgrade the student information system for some time, and the University has carefully analyzed its needs and examined critically those products available from vendors and systems in use at other institutions.

The latest such examination occurred in the Summer of 1994, during the course of this audit, when a team of UTEP staff members visited a large public university in California to view in operation the student information system marketed as most capable of handling the demands of an institution the size of UTEP. The result of that visit was a decision NOT to purchase, at a cost of \$4.5 million, the system in question; UTEP users were convinced that our current system serves them more efficiently than would the system they observed in California. Having now exhausted our review of all other options available, a decision has been made to undertake a major internal upgrade of UTEP's student information system, at an estimated cost of \$2.5 million.

A major commitment of institutional resources is never made without careful deliberation, which we are now satisfied has occurred; the result is that we will save an estimated \$2 million by upgrading our current system rather than purchasing a new one. Although the process may have taken some time, we view the outcome as highly positive. We will continue our efforts to seek external grant funds (e.g., from the Department of Education's Title III program) and other creative strategies to finance the \$2.5 million cost of upgrading UTEP's student information system.

Auditor's Follow-up Comment:

Projects having no documented priority in the Department of Information Resources plans were implemented. The University reported these projects in subsequent plans to DIR after the projects were implemented. Meanwhile, planned projects were not assigned a new priority. It is important that management change existing plans at the time it identifies new priorities in order to facilitate effective planning, consensus, and tracking.

Recommendation:

We recommend the University organize an automation steering committee, with a statement of purpose outlining the charge of addressing immediate needs and planning for future information resources needs. The statement of purpose should be documented and approved by University management. The committee should consist of interdepartmental users and administrators. The following criteria and controls should exist in any steering committee whose purpose is to effectively implement and monitor a strategic plan:

- clearly defined responsibilities and authority
- accountability for monitoring and implementing the strategic plan
- ability to form recommendations independent of executive management

Management's Response:

We concur. A plan for reorganizing Information and Telecommunications, including the establishment of an "automation steering committee", was developed during the past year by the Technology Team. The newly appointed Associate Vice President for Information Technology will implement this plan, activating the committee in question.

Section 1-C:

Lack of Oversight Increases Risk of Inefficient Computer-Related Purchases

During fiscal year 1993, 89 percent of computer-related purchases, representing \$2.1 million, were not subject to technical review and approval. Individual colleges and administrative departments within the University can obtain computer hardware and software for specific functions without review from the Information and Telecommunications Services Division. Without a formal, centralized process for technical review, there is no assurance that purchases are cost-effective and correlate with University-wide information resources strategic planning.

Purchasing records indicate that departments can obtain equipment without technical review, increasing potential for inefficient expenditures. Following are examples of the level of purchases where no review was documented:

- The Computer Science Department purchased \$21,000 worth of personal computers and related equipment.
- The Development Office purchased a laser printer, converter, and other equipment for \$18,000. Six months later, the converter was returned for a refund when the office discovered that it was not necessary to facilitate processing.

- The Accounting Department purchased nine new personal computers for \$6,500 three years ago. The computers are now obsolete. The manufacturer is no longer in business to support the computers; therefore, internal parts cannot be ordered and replaced.

There are no formal University-wide standards and procedures for computer equipment and software purchases. In 1991, the internal auditor recommended centralized control over departmental computer expenditures, but no formal system has been developed. While individual department purchases are required to be reviewed by the Purchasing Department, its staff does not have the expertise to evaluate cost-effectiveness of complex, material purchases. No formal guidelines or training have been provided to purchasing personnel to assist them with reviewing technical expenditures.

Recommendation:

We recommend the University establish policies and procedures to ensure that computer-related purchases are monitored for cost-effectiveness. Procedures should include a requirement for technical review by information resources staff based on a dollar threshold to be determined by the University.

Management's Response:

We concur. The Vice-President for Finance and Administration has developed and will disseminate guidelines for computer-related purchases above a threshold that will be determined by the automation steering committee.

Section 1-D:

Access To Some Sensitive Data Is Excessive

In some cases, the University has not adequately restricted sensitive information to only those who need it for their job duties. Unnecessary access increases the risk of unauthorized changes or loss of data.

Current employees have more access than needed in the following areas:

- Programmers have the capability to access and modify critical student data, such as grades and schedules. Since University personnel are currently relying on this data to perform daily services, programmers should not have the ability to make unauthorized changes to student records. Programmers, whose job function is to develop and maintain codes, only need the ability to view these files.
- Financial aid clerks responsible for processing scholarship awards have access to student income tax information not relevant to scholarship criteria.

A 1992 State Auditor's Office report noted the problem with security of financial aid data, but the finding remains unresolved.

These weaknesses in data security have occurred because the University has not consistently followed internal policies regarding monitoring employee access.

Recommendation:

We recommend the University revoke all unnecessary employee access to student records and periodically monitor access of current and former employees.

Management's Response:

We concur. Actions have already been taken to ensure that access to student records is restricted to those who need it for their job duties. A security manual has been drafted by the Quality Assurance Officer in the Information and Telecommunications Department, and a technology security committee, with broad-based representation from across the campus, has been constituted.

Section 2:

Financial Instability of Athletics Diminishes University Resources

Increasing transfers into athletics from other sources are reducing funds available for essential services and contributing to a decline in the University's financial reserves. Additionally, unrealistic revenue projections during the budget process obscure actual sources of athletics funding. In addressing chronic athletics program deficits, significant amounts of other funds have been transferred without Board of Regents approval. The University has identified the financial instability of athletics in its strategic plan, but has not developed effective strategies for resolving the condition. While some improvements have occurred, further actions are necessary to prevent depletion of University resources used to subsidize athletics.

Section 2-A:

Consistent Operating Losses in the Athletics Program Reduce Funds Available for Essential Services

Ineffective contingency planning has allowed continuing losses to occur in the University's athletics program. The annual operating losses began in 1986 and continued through 1993. Initial plans for increasing revenues have not generated sufficient income. Consequently, the University has transferred other funds to alleviate the losses. This has reduced funds available for essential services and has contributed to a decline in the University's financial reserves.

The University's athletics program is the primary contributor to an ongoing pattern of losses in auxiliary enterprises. For each of the past three years, athletic program

expenditures exceeded revenues by an average of \$1.1 million after applying student service fees. Athletics is one of several business-oriented departments required as a whole to be self-sufficient. During fiscal years 1992 and 1993, other auxiliary enterprises, such as Food Services and the Bookstore, were not able to support the operating losses in athletics. Athletics required transfers from designated funds (discretionary funds unrestricted by outside sources) and still maintained a deficit balance at the end of each year. (See Figure 2.)

Figure 2

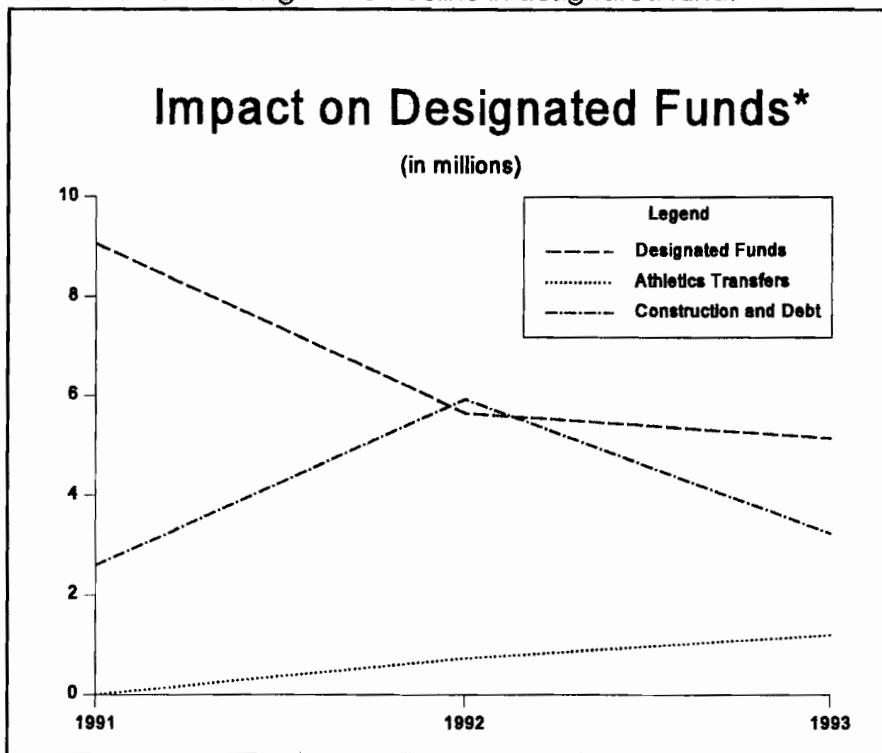
For each of the past three years, athletic program expenditures have exceeded revenues by an average of \$1.1 million

Fiscal Year	1991	1992	1993	1994 Estimated
Athletics Revenues (including Student Service Fees)	\$4,155,026	\$5,002,457	\$4,740,595	\$4,711,175
Athletics Expenditures	\$5,361,128	\$5,814,365	\$6,097,729	\$6,004,391
Net Loss	(\$1,206,102)	(\$811,908)	(\$1,357,134)	(\$1,293,216)
Transfers from Designated Funds	\$0	\$730,000	\$1,200,000	\$500,000
Ending Balance - Athletic Fund	(\$512,838)	(\$521,058)	(\$524,290)	(\$1,317,506)
Ending Balance - Designated Funds	\$9,057,026	\$5,630,053	\$5,145,577	\$4,645,577

Source: University Annual Financial Reports for fiscal years 1991-1993 and estimated amounts for fiscal year 1994

Figure 3

Athletics transfers are reducing funds available for construction and debt and contributing to the decline in designated funds



Source: University Annual Financial Reports for fiscal years 1991-1993.

*Designated Funds are funds not restricted by law or external parties. They can be designated by the governing board for a particular purpose.

Transfers into athletics caused half of the \$3.9 million decline in designated funds from 1991 to 1993. The University also uses designated funds for a variety of essential services such as debt reduction and construction. In each of the past three years, the University has used an average of \$2.1 million for debt repayment and \$1.7 million for construction. Athletics transfers are reducing funds available for these services. (See Figure 3.) If the transfers into athletics continue at current levels, the University will eventually deplete its designated funds and will have to rely on other resources to provide these services.

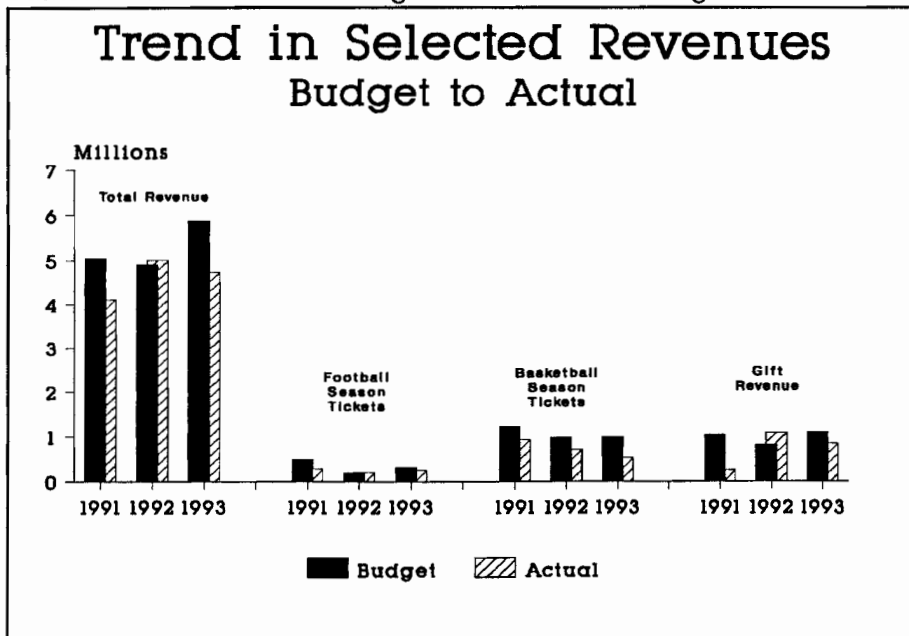
While the University recognizes that it cannot afford to sustain these losses indefinitely, it has not developed effective strategies for resolving the athletic program's unstable condition. Strategic planning for athletics has not been consistently or adequately performed. The athletics department has not updated its strategic plan since 1991. Although the 1991 plan contains one broad goal of "improving the financial condition of the program" and lists some strategies for increasing revenues, it does not target specific dollar amounts or dates for achieving goals. Strategies for boosting ticket sales through special game promotions have not produced the significant increases in revenues necessary to cover athletic program expenses.

Despite consistent revenue shortfalls, the athletics program does not have long-term comprehensive marketing or fund-raising plans. The University needs such plans to stabilize gift revenue, which is a significant portion of the revenue budget for athletics. Gift revenue totaled \$250,000 in 1991, \$1.08 million in 1992, and \$836,000 in 1993.

Additionally, the strategic plan does not address the need for reducing athletic expenditures while increasing revenues. There is no contingency plan to address what happens when revenues are less than estimated. The University has not reduced athletic expenditures when revenues did not meet targets. Furthermore, there are no plans which evaluate the potential for reduced costs and the potential community impact associated with downsizing all or part of the athletics program.

Weaknesses in the University's revenue projection process also contributed to athletic losses. Overly optimistic revenue projections contributed to athletic revenue shortfalls of \$898,000 in 1991 and \$1.1 million in 1993. The Gift Fund and basketball season ticket sales had the largest shortfalls. (See Figure 4.) For fiscal year 1994, the University budgeted \$1.1 million in gift revenue and had only received \$720,000 as of August 18, 1994.

Figure 4
Basketball season tickets and gift revenue had the largest shortfalls



Source: Accounting Records, The University of Texas at El Paso, fiscal years 1991-1993

Revenue projections were too optimistic in some cases. For example, the University projected men's basketball season ticket revenues of \$984,000 for 1993, although it only collected \$702,000 in 1992. Additionally, the University budgeted \$1.1 million for gift revenue for 1994, although it only received \$836,000 in 1993.

Using unrealistic revenue projections during the budget process impairs management's ability to monitor other funds used to subsidize athletics. The University does not reduce

its expenditures or request additional funds via budget revisions as the shortfalls occur.

Rather, it transfers amounts needed to cover the revenue shortfalls at the end of the year. According to the National Association of College and University Business Officers, the budget process should establish *preliminary* control over institutional resources. Continual preparation of unrealistic budgets prevents management from maintaining such control.

Recommendation:

We recommend the University update the strategic plan for athletics. The strategic plan should have specific goals and strategies with target dates for completion.

Management's Response:

We concur. The Intercollegiate Athletics strategic plan is being updated by the Director of Intercollegiate Athletics in consultation with the Athletic Council whose membership includes a broad range of UTEP faculty and staff members. In addition, the athletic program is participating this year in the new NCAA self-study certification process, and it is also being reviewed as a part of the University's self-study for re-accreditation by the Southern Association of Colleges and Schools. The results of these self-studies will be incorporated into future athletic department planning.

Such planning must recognize that UTEP's close relationship with the El Paso community is vital to the success of this institution. In general, the athletic program is viewed as an asset to UTEP and the El Paso community, where the only other athletic competition is a minor league baseball team. A recent public opinion poll conducted by the El Paso Times revealed that the UTEP athletics program is very favorably regarded as a source of both community pride and entertainment, as well as state and national visibility for UTEP and El Paso.

Recommendation:

We recommend the University develop a long-term financial plan, including annual operating budgets, based on realistic expectations of revenues.

Management's Response:

We concur. Such financial planning is actively underway. The Director of Intercollegiate Athletics is working closely with the Vice President for Finance and Administration and with the Director of Development to refine financial planning. In addition, candidates to replace the Athletic Business Manager, who recently resigned, will now be interviewed by both the Comptroller and the Vice President for Finance and Administration to ensure that they possess the requisite financial and management skills for success in this key position.

Such financial planning must also consider the impact of student athlete tuition and fee income to the University. To keep things in perspective, it should be noted that while this program has had to rely on local University reserves to balance its budget, it has also contributed in excess of \$1 million in tuition and fee income to the University each year.

Recommendation:

We recommend the University develop and use priorities for reducing athletic expenditures in case revenues cannot support the current level of services; this includes the possibility of downsizing the athletics program.

Management's Response:

We concur. Such reductions in athletic expenditures have already occurred, and additional cost savings will continue to be sought. The UTEP athletic budget is, however, the smallest in the Western Athletic Conference by more than \$1 million. Despite operating on a very lean budget, the program continues to be competitive, both within the Conference and nationally, and progress has been made on addressing gender equity issues.

Further expenditure reductions will impede the implementation of gender equity measures and likely jeopardize the program's continued participation in the WAC and in NCAA Division I A; instead, revenues must be increased through more aggressive marketing and more creative fund-raising. UTEP's Director of Development has been assigned responsibility for planning and coordinating fund-raising activities, and planning is well underway. A new marketing director will be employed to improve ticket sales and related promotional activities. Those responsible for the athletic program and members of the El Paso community have been informed through a variety of highly visible avenues, including broad media coverage, that the program's future in the WAC and NCAA Division I-A rests on increasing ticket sales and other income.

Recommendation

We recommend the University develop a comprehensive marketing plan with long-term specific goals for fund-raising and strategies to accomplish those goals.

Management's Response

Marketing and fund-raising planning is well underway. With its new charge to coordinate fund-raising for Intercollegiate Athletics, the Development Office has already raised over \$500,000 in new gift income since September, a major step in erasing the budget shortfall. This short-term effort will be augmented by a long-term fund-raising plan designed to increase and stabilize the financial foundation upon which the Intercollegiate Athletics program must rest.

Section 2-B:

The University Used Significant Amounts of Other Funds Without Approval of the Board of Regents

Unrealistic revenue estimates have resulted in the University transferring increasing amounts of other funds for athletics without The University of Texas System Board of Regents' approval. The transfers constitute a change in funding source, not a change in the level of expenditures. While fiscal year 1993 was the first year that other funds were officially budgeted for athletics, the University has used other funds each year since 1991. (See Figure 5.) In 1993, it transferred four times the amount budgeted and approved by the Board of Regents.

Figure 5

While 1993 was the first year that other funds were officially budgeted for athletics, the University has used other funds each year since 1991

TRANSFERS	1991	1992	1993
Budgeted (Approved) Transfers	\$0	\$0	\$300,000
Actual Transfers	\$250,000	\$730,000	\$1,200,000
Unbudgeted (Unapproved) Transfers	(\$250,000)	(\$730,000)	(\$900,000)

Source: Accounting records, The University of Texas at El Paso, fiscal years 1991-1993

The University of Texas System policy requires that the Board of Regents approve transfers of \$100,000 or more above original departmental budgets. Without timely information on significant transfers, the Board of Regents is unable to adequately monitor the use of other funds to finance athletics.

The University reported the transactions in its annual financial reports issued after the end of each fiscal year. However, there is no other evidence to show it informed the Board of Regents at the time of the transfers or that the Board of Regents approved the transfers.

Recommendation:

We recommend the University obtain Board of Regents' approval for all transfers exceeding budgeted amounts in accordance with The University of Texas System policy. A mid-year assessment should be conducted to determine the probability of reaching athletics revenue projections. If the assessment indicates a shortfall, a budget transfer should be initiated during the year to obtain preliminary board approval.

Management's Response:

We certainly agree that the U.T. System Board of Regents must be appropriately informed of the financial condition of UTEP's Intercollegiate Athletics program, and we believe that we have consistently provided the Regents with such information. A comprehensive mandatory NCAA financial audit report is prepared annually by the Office of Internal Audits and reviewed by the U.T. System Audit Office and forwarded to the Regents. We take exception to the suggestion the Regents have not been appropriately informed, based solely on the fact that a "Request for Budget Change" form was not prepared for a transaction that is arguably not a "budget change" but a cash accounting change.

We will continue to adhere to U.T. System policy regarding the reporting of transfers. The technical issue upon which this finding is based has recently been clarified by U.T. System, and the requirement to which the finding refers has been eliminated.

Budget transfers will be made as appropriate. However, as noted above, Board approval is not required for such transfers.

Auditor's Follow-up Comment:

Whether the transfers constituted a budget change or a "cash accounting change," the effect is the same. During fiscal years 1991-1993, \$1.8 million of other funds used to fund athletics was neither budgeted nor approved by the Board of Regents.

While board approval is *no longer* required for such transfers, the policy did require approval during the period we audited. Even if board approval is no longer required, it would still be a good business practice to inform the board when such significant amounts of funds are transferred.

Additionally, it is critical that budgets be adjusted as soon as it becomes evident that revenues will not meet their targets, rather than waiting until the end of the year.

Section 2-C:

The University Expanded Controls Over Fund-Raising And Level Of Accountability For Athletics Program Budgets

The University has initiated efforts to address financial challenges facing the athletics program. In 1992, the University established an internal fund-raising organization to gain more control over the revenue side of athletics. Previously, an external foundation led the fund-raising activities.

The University has also changed the budget process by holding coaches accountable for developing and monitoring their own budgets. Year-to-date expenditures, plus a conservative estimate of year-end expenditures, show that the athletics department has made progress keeping expenditures within budgets.

The University Faces a Significant Challenge In Its Developmental Math Education Program

A significant portion of the University's undergraduate enrollment has entered the University underprepared for college-level math. At the same time, new math-intensive graduate programs are being added, and local graduate enrollment is increasing. As a result, the University faces the significant challenge of facilitating students' successful transition from developmental math programs into mainstream college-level work. The University has identified this challenge and begun efforts to address it. However, it can make further improvements to help more of these students progress into undergraduate programs and the growing number of graduate programs. These improvements include developing specific written plans and goals for developmental education and considering the cost/benefit of reducing some class sizes for students with special needs.

Nearly one-fifth of undergraduate enrollment and one-half of freshman enrollment is underprepared for college-level math and enrolled in developmental math courses. The percentage of students in this category has grown and remained significant. Figure 6 shows the developmental math enrollment for the last four fall semesters and the percentages of undergraduate and first-year student enrollment.

Figure 6

The percentage of students in developmental math each fall has increased and remained significant

	FALL 1990	FALL 1991	FALL 1992	FALL 1993
Developmental Math Students	1,896	2,277	2,507	2,385
Percent of Undergraduate Enrollment	14%	16%	17%	17%
Percent of First Year Students	39%	47%	52%	51%

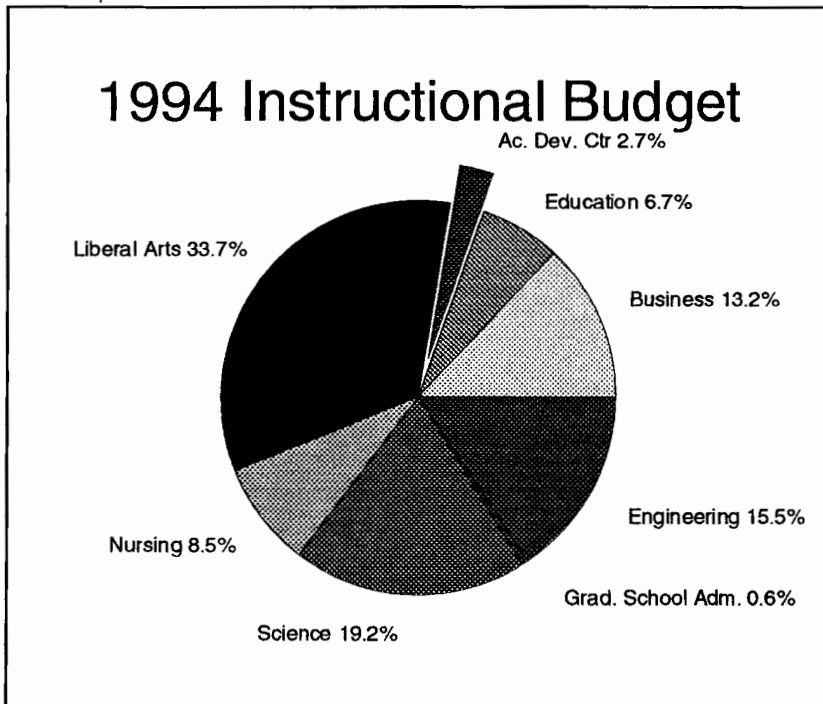
Source: Enrollment Reports, Texas Higher Education Coordinating Board

Almost half of the students enrolled between fall 1989 and fall 1992 did not progress into college-level math courses because they did not pass developmental math. According to a University study, of the first-time students enrolled during this period, 7,562 took the two developmental math courses offered by the University. As of spring 1993, only 3,722 students had passed.

The growing number of math-intensive graduate programs underscores the need for successful transition of students from developmental courses into undergraduate programs. The University has added new Ph.D. programs in Psychology, Electrical Engineering, and Materials Science and Engineering. It has also applied to the Texas Higher Education Coordinating Board for approval of additional graduate programs.

The historical and expected reliance upon local students to fill the growing number of graduate programs makes the successful transition from developmental programs into undergraduate programs even more crucial. New graduate students who have undergraduate degrees from the University increased from 44 percent in 1991 to 53 percent in 1993. This trend will likely continue as additional graduate programs are added under a legislative funding initiative intended to increase higher education opportunities in the border region.

Figure 7
The University allocated 2.7 percent of its instructional budget to developmental course instruction



Source: *Fact Book*, The University of Texas at El Paso, 1993-1994

As a result of the funding level for developmental courses, some class sizes may not reflect unique student needs. In the fall 1993 semester, 5 of the 11 sections offered for developmental algebra, the course most students attempt, exceeded 290 students per section. The University has not analyzed the cost-benefit associated with reducing these class sizes, and its current developmental course funding constitutes a relatively small part of the overall budget. Of the total instructional budget of \$24.4 million, the Academic Development Center, the unit on campus responsible for developmental instruction, was allocated approximately \$650,000. (Figure 7 shows the funds budgeted by college within the University.)

The absence of specific short-term plans and goals for improving developmental courses also represents an opportunity for improvement. There not any specific written plans and goals for the Academic Development Center. Without written plans and goals, it is difficult to measure progress in improving the courses.

The University's approximately 50 percent passing rate for developmental math courses did not differ significantly from two other border-area universities we surveyed, Texas A&M University-Kingsville and The University of Texas-Pan American.

Developmental instruction can effectively improve retention rates and subsequent academic success of at-risk students. The Texas Higher Education Coordinating Board has found that students who complete developmental courses are retained at a

higher rate and perform at college levels comparably to those who do not require developmental instruction.

The University has recognized the challenges in this area and has begun carrying out some long-term solutions:

- The University is collaborating with El Paso Community College, area school districts, and partners from the public and private sector on a major community-wide initiative. The initiative's objectives are to improve academic achievement and encourage more high school graduates to pursue higher education and earn degrees in science, engineering, and mathematics.
- During the process of preparing for its accreditation review, the University has identified several possible strategies for improving effectiveness of developmental courses.
- The University is attempting to improve the passing rates in one of its college-level math courses by piloting a technique that calls for more intensive instruction. If successful, the technique may also prove useful for developmental math courses.

Recommendations:

We recommend the University develop specific short- and long-term plans, goals, and objectives for developmental math, including specific target dates and ways to periodically measure progress. In addition, the University should review the cost-benefit of reducing some of the larger class sizes.

Management's Response:

We concur with the recommendation. Assessment of student needs and programmatic responses to those needs have been the subject of ongoing review and planning. UTEP is considered a national leader in the education of non-traditional students, and the models we develop are expected to be exported to other institutions that will face similar challenges in the future.

Recommendation:

Alternatively, the University could consider modifying its admissions standards so that students are adequately prepared for college-level work before gaining admission to the University.

Management's Response:

We concur, and such criteria has already been adopted. The University has worked closely for the past three years with school districts in El Paso County from which 85% of UTEP's 17,200 students come. This partnership, called the El Paso Collaborative for Academic Excellence, includes the El Paso Community College, the chambers of commerce, and many community organizations as well. The goal of the Collaborative is to enhance the academic achievement of all youngsters in this County to ensure that they are well prepared for higher education and/or the workplace. Through joint planning with area school districts, the University has adopted new admissions criteria which will be phased in during the next ten years to coincide with more demanding high school graduation requirements and with the capacity-building being undertaken by all area schools under the auspices of the El Paso Collaborative.

Section 4:

Comprehensive Controls Have Been Established to Monitor Grant Growth

Section 4-A:

The University Has Effectively Obtained External Funding Sources

In an environment of limited state resources, the University has been successful in increasing external funding to achieve its mission. Since 1989, grants or sponsored project revenues have increased dramatically. According to the annual financial reports for fiscal years 1989 to 1993, annual restricted fund revenue for research has grown 67 percent, from approximately \$11 million during 1989 to \$18 million during 1993. Total new awards have averaged \$20 million annually since 1989. Multimillion-dollar sponsored projects support University strategic plan initiatives for educational opportunity and community outreach, including:

- biomedical research for regional health concerns
- programs developed to increase the number of Hispanic, African American, and Native American students completing bachelor's degrees in science, engineering, and mathematics
- a collaborative program with public schools to enhance academic achievement of elementary and high school students

Section 4-B:

Procedures Have Been Established For Proper Oversight of Increased Funding

The University has established a comprehensive system for monitoring grant funding. Monitoring is performed by a centralized Sponsored Projects Office not affiliated with the individual departments soliciting grants. This office monitors the entire

grant process from proposal development through the end of a project. Additional review of grant-related financial activity is performed by the accounting department. Tests of controls conducted during our audit indicated general compliance with University procedures and did not detect any inappropriate expenditures.

Section 4-C:

Comprehensive Procedures Address Federal Audit Findings

The comprehensive grant monitoring system reduces the risk that recent federal audit findings related to University grants will be repeated. An Inspector General audit of the Defense Logistics Agency questioned the agency's approval of grants awarded to several universities, including The University of Texas at El Paso. The federal audit, initiated in 1991 and released in June 1994, questioned whether the University's projects were within the scope of the agency's materials manufacturing program and questioned the allowability of approximately \$800,000 in grant expenditures.

At the time of this audit, the Defense Logistics Agency had not completely concurred with the Inspector General's findings. The agency requested that the University rewrite and resubmit its project proposals, but did not request any reimbursement.

Objective, Scope and Methodology

Objective

Our audit objective was to evaluate the existing management control systems within The University of Texas at El Paso and to identify strengths and opportunities for improvement. The audit evaluated control systems in place as of July 1994.

The evaluation focused on answering the following questions as they related to management information systems, athletics, and enrollment management:

- Are information systems coordinated and controlled and supporting key functions?
- Are overall management controls in place to promote the viability of the athletics program?
- Are controls in place to monitor the substantial growth in grants?
- Does the University adequately identify, prioritize, and address developmental student needs?

Scope

Following a preliminary review of the University's management controls and policy environment, we narrowed our scope to a review of management information systems, athletics, developmental education, and grants management. Within these areas, we considered the following control systems: strategic planning, budgeting, management information systems, and performance monitoring.

Within management information systems, our objectives included reviewing the following areas:

- consistency of documented plans and priorities with actual implementation
- coordination of equipment and software purchases for compatibility and cost effectiveness
- access to automated student information

Within athletics, our objectives included reviewing the following areas:

- budgetary controls
- actions taken to reduce athletics department operating losses
- strategic plans for athletics operations
- compliance with The University of Texas System policy regarding interfund transfers

Within developmental education, our objectives included reviewing the following areas:

- allocation of resources and consistency with strategic plan and student needs
- completion rates in comparison to other universities
- strategic planning

Within grants management, our objectives included reviewing the following:

- coordination between departments sharing responsibility for monitoring grants
- extent of external reviews by awarding entities
- methodology for indirect cost recovery

We also followed up on prior audit findings from our fiscal year 1992 statewide audit relating to unrestricted computer access and noncompliance with grant and student loan requirements.

Methodology

Information collected to accomplish our objectives included the following:

- Interviews with members of the Board of Regents and other management personnel within The University of Texas System and management and staff of The University of Texas at El Paso
- Documentary evidence such as:
 - Prior management letters
 - Selected state and federal regulations
 - Texas Higher Education Coordinating Board reports
 - Texas Department of Information Resources reports
 - State Auditor's Office Higher Education Data Base reports
- Surveys of other Texas border-area universities
- University-generated data such as:
 - Policy and procedure manuals
 - Board minutes
 - Internal Audit reports
 - Monthly and annual budget reports
 - Strategic plans (University plan and various departmental plans)
 - Accounting records
 - Organizational charts

Analysis techniques used:

- Review of various controls
- Trend analysis
- Analysis of comparative data

Criteria used:

- Refer to Reference List at Appendix 3.

Other Information

Fieldwork was conducted from April 1994 to August 1994. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

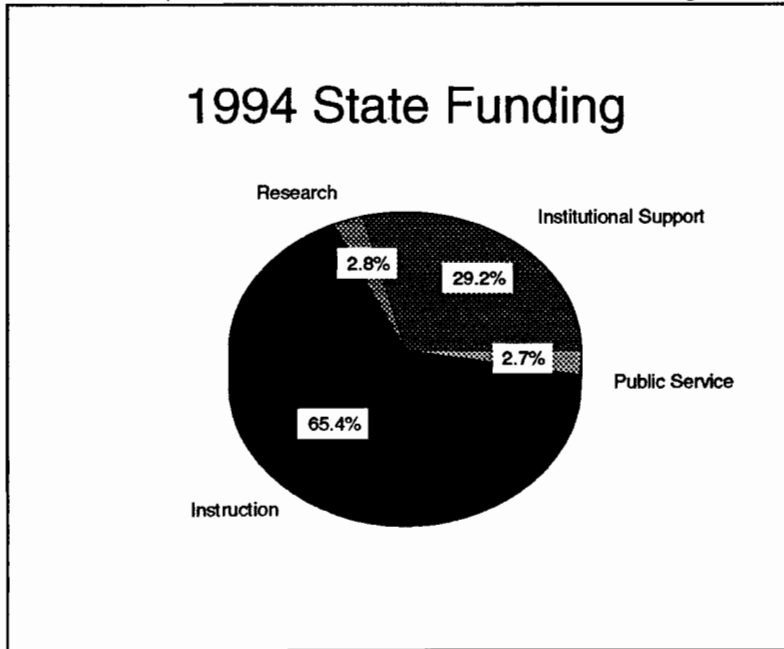
The audit work was conducted by the following members of the State Auditor's Office staff:

- Valerie D. Hill (Project Manager)
- Robert H. Bollinger, CPA
- David P. Conner, CISA
- Edward L. Dorotik, Jr., CPA
- Jon Fabian, CPA
- Kim Novak
- Barbara S. Hankins, CPA (Audit Manager)
- Craig D. Kinton, CPA (Director)

University Financial and Enrollment Information

Figure 8

The University received \$56 million in state funds during 1994



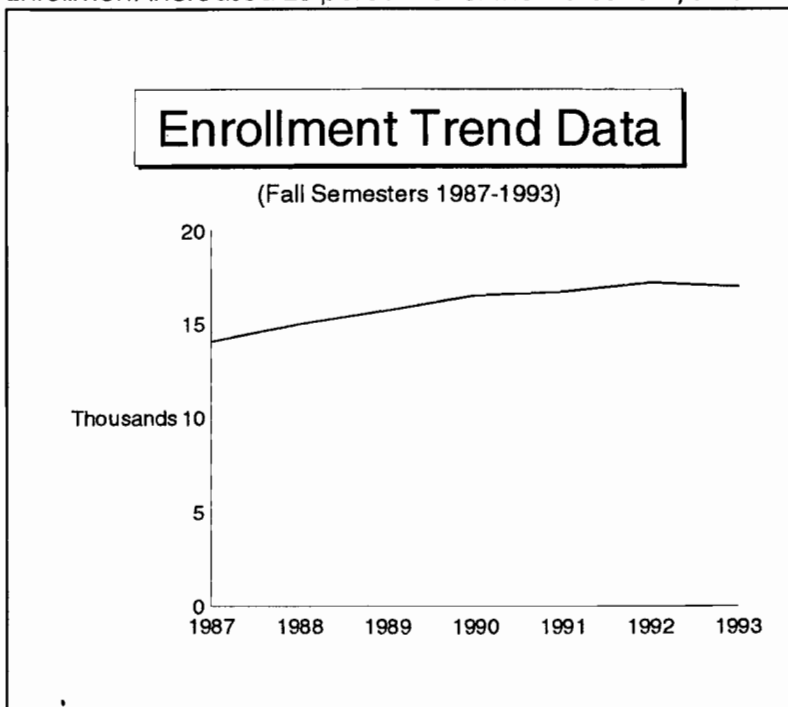
State Funding

The University's 1994 state appropriations totaled \$56 million. (See Figure 8 .) The majority (\$36 million or 65 percent) of the University's state funding was for providing instruction, including teaching, administration, scholarships, and library services. Other funds were appropriated for institutional support (\$16.4 million or 29 percent), conducting research (\$1.5 million or 3 percent), and providing public service (\$1.5 million or 3 percent).

Source: General Appropriations Act (Senate Bill 5), 1994-1995 biennium

Figure 9

Enrollment increased 20 percent over the last seven years

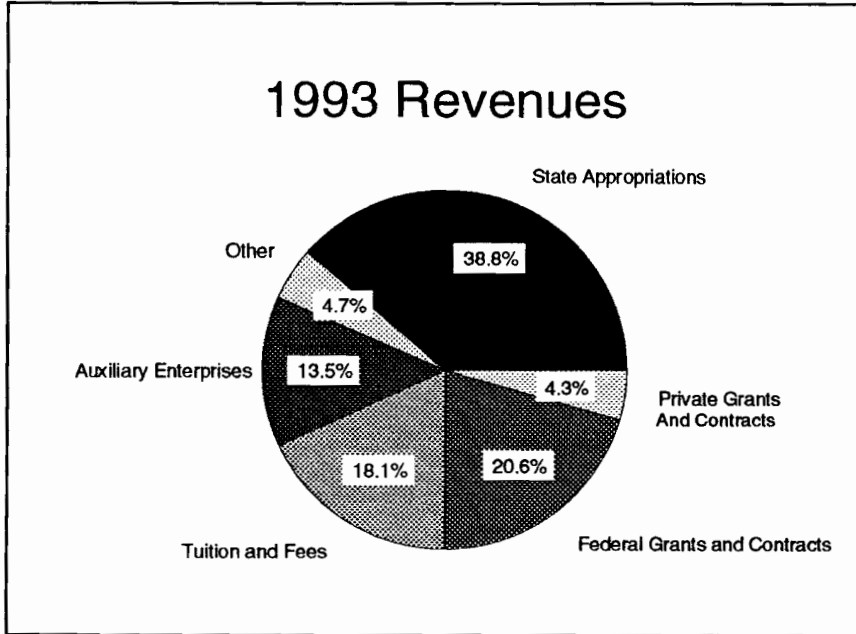


Enrollment

Enrollment at the University has increased 20 percent over the last seven years. Enrollment grew from 14,056 students in the fall of 1987 to 16,999 students in the fall of 1993.

Source: *Fact Book*, Office of Institutional Studies, The University of Texas at El Paso

Figure 10
The University's 1993 revenues totaled \$119 million

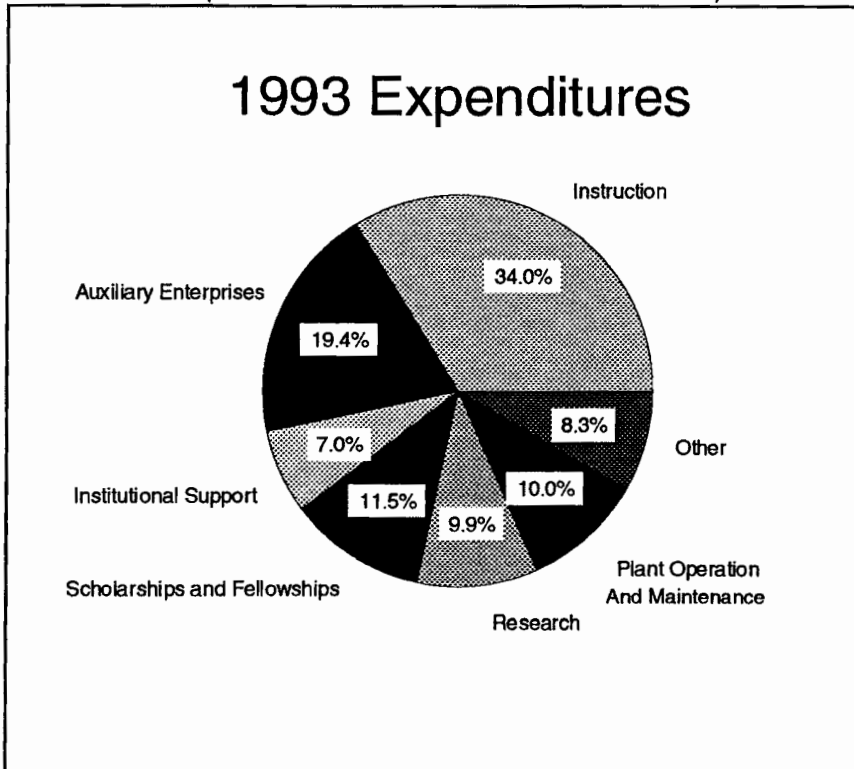


Revenues

The University's 1993 revenues totaled \$119 million. State appropriations were the primary source of revenues (\$46 million or 39 percent), followed by federal grants and contracts (\$24.5 million or 21 percent). Other revenues included tuition and fees (\$21.5 million or 18 percent), sales and services of auxiliary enterprises (\$16 million or 13 percent), and private gifts, grants, and contracts (\$5.1 million or 4 percent).

Source: The University of Texas at El Paso 1993 Annual Financial Report

Figure 11
Current fund expenditures totaled \$115 million for fiscal year 1993



Expenditures

The University's current fund expenditures totaled \$115 million for fiscal year 1993. The majority of expenditures were for instruction (\$39 million or 34 percent). Other areas of expenditures included auxiliary enterprises (19.4 percent), scholarships and fellowships (11.5 percent), plant operation and maintenance (10 percent), research (9.9 percent), institutional support (7 percent), and other services (8.3 percent).

Source: The University of Texas at El Paso 1993 Annual Financial Report

University Profile

Section 1

Mission Statement

As stated in its strategic plan, the mission of The University of Texas at El Paso is to provide quality education to the residents of El Paso and West Texas, to prepare them to live effectively in society and to contribute to the quality of life in the community, the region, and the world.

Section 2

Background Information

The University of Texas at El Paso, second oldest academic component of The University of Texas System, was originally established in 1914 as the Texas State School of Mines and Metallurgy. In 1919, it became a part of The University of Texas System and assumed the name Texas College of Mines and Metallurgy. Subsequent name changes occurred in 1949 (to Texas Western College) and in 1967 (to its current title).

The University is located in the largest population center on the U.S./Mexico border. It serves an urban community with a fast-growing binational population of nearly two million.

Section 3

University Vision

In its strategic plan, the University envisions that it will be "recognized nationally for its commitment to and success in providing quality higher education to a diverse student population. Through effective undergraduate and graduate programs, excellence in research, innovative student services, and efficient administration, the University envisions itself as the constant, positive force in fostering human and economic development for the bicultural region it serves."

The University also envisions that it will be known for "successfully using its unique binational location to create and maintain superior inter-American educational and research collaborations with public and private sector organizations, especially in northern Mexico."

Section 4

University Philosophy

In its strategic plan, the University states that "higher education has been entrusted to the citizens of Texas with their hopes for a healthy, prosperous, and personally satisfying future. Institutions of higher education hold this trust as both a high honor

and a solemn obligation. In fulfilling its broad mission, higher education will respond to the needs and concerns of its constituents by pledging accessibility, diversity, quality, and effectiveness to the students and others who wish to partake of the benefits of higher education; by ensuring professional integrity, academic freedom, and adequate reward for the faculty and other professionals who work in higher education; and by promising efficiency and accountability to the citizens whose public taxes and private contributions support higher education."

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