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An Audit Report on University Formula Funding Reporting

October 1996

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Key Points of Report

An Audit Report on University Formula Funding Reporting

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Overall Conclusion

The State's 35 universities are 99.4 percent accurate in reporting semester credit hours. Of the almost \$2 billion appropriated by semester credit hours, \$11.6 million was overfunded.

Key Facts and Findings

- Audit testing, which included performing tests of compliance with state laws and Texas Higher Education Coordinating Board rules, identified an estimated \$8.7 million in overfunding. The remaining \$2.9 million in overreporting of semester credit hours was identified by the universities.
- Significant weaknesses relating to the overreporting of semester credit hours were noted at Texas Southern University, Prairie View A&M University, University of Houston, and The University of Texas at El Paso.
- The installment collection requirements are not applied consistently for courses added after the initial registration period. In addition, the terminology used in the various rules and regulations regarding the collection of tuition and fees is not consistent.
- A review of the reported actual fiscal year 1994 education and general revenues noted that the amounts are materially accurate. These amounts were also used to request appropriations for the 1996-1997 biennium.

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Office of the State Auditor

Lawrence F. Alwin, CPA

This compliance audit was conducted in accordance with Government Code, §321.0133.

Executive Summary

The State's 35 universities are 99.4 percent accurate in reporting semester credit hours. Of the almost \$2 billion appropriated by semester credit hours, \$11.6 million was overfunded.

Audit testing, which included performing tests of compliance with state laws and Texas Higher Education Coordinating Board (Coordinating Board) rules, identified an estimated \$8.7 million in overfunding. The remaining \$2.9 million in overreporting of semester credit hours was identified by the universities. The amount of over- or underfunding for each university is listed in Figure 1 on page 3.

Significant Weaknesses Were Noted at Four Universities

Significant weaknesses relating to the overreporting of semester credit hours were noted at:

- Texas Southern University
- Prairie View A&M University
- University of Houston
- The University of Texas at El Paso

Texas Southern University did not maintain sufficient Texas Academic Skills Program (TASP)-related documentation for 44 of the 531 students tested for compliance with TASP requirements. The 44 students for whom sufficient documentation was not maintained resulted in overfunding of \$3,654,994 when projected to Texas Southern University's appropriation dollars generated by semester credit hours.

Prairie View A&M University received funding for students' semester credit hours for which sufficient TASP-related documentation was not maintained and tuition collection requirements were not met. These exceptions resulted in overfunding of \$1,680,319 when

projected to Prairie View A&M University's appropriation dollars generated by semester credit hours.

The **University of Houston** did not accurately report the classification for all students reported to the Coordinating Board for funding purposes. In a sample of 531 students with varying classification levels, 8 were incorrectly classified at the higher-funded doctoral level. These exceptions resulted in overfunding of \$1,692,854 when projected to the University of Houston's appropriation dollars generated by semester credit hours.

The **University of Texas at El Paso** did not identify seven students who should have been enrolled in a remediation course according to TASP requirements. The seven students who were not properly enrolled in a remediation course resulted in overfunding of \$839,964 when projected to The University of Texas at El Paso's appropriation dollars generated by semester credit hours.

The Installment Collection Requirements Are Not Applied Consistently to Courses Added After the Initial Registration Period

Universities do not apply a consistent method of collecting tuition and fees to courses added after the initial registration period. Although all universities use the installment option of collecting tuition and fees, consistent procedures are not used to collect tuition and fees for courses added after the student's initial registration period.

The audit identified different applications being used by the universities. Each university collects at least one-half of the required tuition and fees at the initial registration. However, based on the method used to collect tuition and fees for courses

Executive Summary

added after the initial registration, a different amount of tuition and fees would be collected by the official reporting date.

The Coordinating Board has stated that for purposes of reporting, students are required to pay at least one-half of their tuition and fees by the official reporting date for all of their classes reported to the Coordinating Board. That includes courses added after their initial registration.

The Terminology Regarding the Collection of Tuition and Fees Is Not Consistent

The terminology used in the various rules and regulations regarding the collection of tuition and fees is not consistent. In order for a university to receive semester credit hour funding, some of the rules require universities to collect both tuition and fees by a specified point in time. Another requires only the collection of tuition. Consistent terminology in the rules and regulations will allow universities to consistently collect tuition and fees and report semester credit hour data used in the formula funding process. The Coordinating Board has stated that universities should require at least one-half payment of both tuition and fees.

Educational and General Revenues Are Materially Accurate

A review of the reported actual fiscal year 1994 education and general revenues noted that the amounts are materially accurate. These amounts were also used to request appropriations for the 1996-1997 biennium.

Summary of Management Responses

Management generally concurs with the issues and recommendations contained in this report. The universities have begun taking corrective action and implementing the recommendations.

Summary of Objectives, Scope, and Methodology

The primary objectives of the audit were to:

- Audit the accuracy of the variables in selected formulas used in calculating 1996 and 1997 formula funding appropriations.
- Determine the accuracy of fiscal year 1994-1995 education and general revenues reported in the universities' Legislative Appropriations Requests.

The audit scope and methodology primarily included:

- Using an attribute sampling methodology to test the accuracy of the semester credit hours used in calculating appropriations
- Reviewing self-reported corrections provided by the universities and calculating the dollar impact on appropriations
- Reviewing the documentation supporting amounts included in each university's Legislative Appropriations Request

Section 1:

The State's 35 Universities Are 99.4 Percent Accurate in Reporting Semester Credit Hours

The State's 35 universities are 99.4 percent accurate in reporting semester credit hours. Of the almost \$2 billion appropriated by semester credit hours, \$11.6 million was overfunded.

Audit testing, which included performing tests of compliance with state laws and Texas Higher Education Coordinating Board (Coordinating Board) rules, identified an estimated \$8.7 million in overfunding. The remaining \$2.9 million in overreporting of semester credit hours was identified by the universities. The amount of over- or underfunding for each university is listed in Figure 1.

Figure 1
Total Over- or Underfunding By University

University	Compliance Testing Estimated (Over-) or Underfunding	Self-Identified Corrections (Over-) or Underfunding	Net (Over-) or Underfunding
Angelo State University	\$ (44,478)	\$ 0	\$ (44,478)
East Texas State University	0	(12,844)	(12,844)
East Texas State University - Texarkana	0	(7,856)	(7,856)
Lamar University - Beaumont *	0	(2,823)	(2,823)
Midwestern State University *	1,188	0	1,188
Prairie View A&M University *	(1,739,227)	(126,267)	(1,865,494)
Sam Houston State University	(10,813)	0	(10,813)
Southwest Texas State University *	23,436	674	24,110
Stephen F. Austin State University *	0	(44,002)	(44,002)
Sul Ross State University	(885)	(12,339)	(13,224)
Sul Ross State University - Rio Grande College	(3,004)	(421)	(3,425)
Tarleton State University	0	0	0
Texas A&M International University	(3,649)	(2,972)	(6,621)
Texas A&M University *	(9,148)	(2,676,420)	(2,685,568)
Texas A&M University - Corpus Christi	(107,458)	(4,954)	(112,412)
Texas A&M University - Kingsville *	(54,121)	119,000	64,879
Texas A&M University at Galveston	(41,229)	0	(41,229)
Texas Southern University *	(3,653,054)	(6,784)	(3,659,838)
Texas Tech University *	0	0	0
Texas Woman's University	(241,013)	0	(241,013)
The University of Texas at Arlington *	0	(81,880)	(81,880)
The University of Texas at Austin *	0	0	0
The University of Texas at Brownsville	789	0	789
The University of Texas at Dallas	0	(4,485)	(4,485)
The University of Texas at El Paso *	(1,079,953)	0	(1,079,953)

Figure 1

Total Over- or Underfunding By University, concluded

University	Compliance Testing Estimated (Over-) or Underfunding	Self-Identified Corrections (Over-) or Underfunding	Net (Over-) or Underfunding
The University of Texas - Pan American *	0	(7,869)	(7,869)
The University of Texas of the Permian Basin	(13,896)	(14,434)	(28,330)
The University of Texas at San Antonio	0	0	0
The University of Texas at Tyler	0	0	0
University of Houston - Clear Lake	0	0	0
University of Houston - Downtown	0	0	0
University of Houston - Main *	(1,692,854)	0	(1,692,854)
University of Houston - Victoria	0	0	0
University of North Texas *	0	0	0
West Texas A&M University	\$ (15,090)	\$ 0	\$ (15,090)
NET (OVER) OR UNDERFUNDING	\$ (8,684,459)	\$(2,886,676)	\$ (11,571,135)
(OVER-) OR UNDERFUNDING PERCENTAGE**	(0.44%)	(0.14%)	(0.58%)
OVERALL ACCURACY RATE PERCENTAGE**	99.56%	99.86%	99.42%

* Also audited during the previous Higher Education Formula Funding Variables Audit. (*An Audit Report on University Formula Funding Reporting*, SAO Report No. 95-027, November 1994)

**As a percentage of appropriated dollars generated by semester credit hours.

Section 1-A:

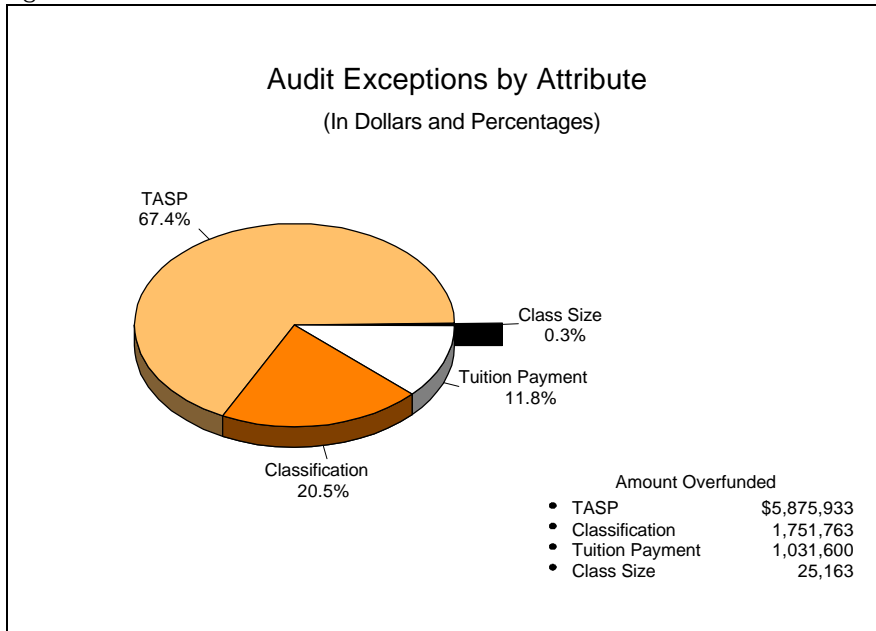
Audit Sampling Exceptions Estimate Overfunding at \$8.7 Million at 19 Universities

Nineteen of the State's 35 universities received an estimated \$8.7 million in funding for reporting semester credit hours which were not in compliance with state laws and Coordinating Board rules. A sample of students and classes was selected at each university to determine whether the associated semester credit hours were properly reported for funding. Sample exceptions were projected to estimate the amount of over- or underfunding. Specific exceptions were noted in the reporting of:

- Compliance with TASP requirements
- Classification level of students
- Collection of sufficient tuition by the required date for reporting official enrollments
- Total number of students in a class

Appendix 1.1 (page 17) contains an explanation of the attributes tested and the testing methodology used for this audit. Figure 2 (page 5) shows the distribution of overfunding by attribute.

Figure 2



Section 1-B:

Universities Identified Corrections to Semester Credit Hour Data Which Resulted in Overfunding of \$2.9 Million

Seventeen of the State's 35 universities voluntarily identified and disclosed corrections (instances of noncompliance and unreported items) to the certified semester credit hour data reported to the Coordinating Board. These corrections would have reduced appropriations by \$2.9 million had they been reported prior to the certification of the data. The two types of corrections most often disclosed were (1) collection of tuition by the official reporting date, and (2) compliance with the TASP requirements. (See Appendix 5, page 28, for the distribution of these amounts by semester and type of correction.)

Prior to any audit testing, the universities were encouraged to disclose any known instances of noncompliance in the enrollment data reports. Disclosing known instances of noncompliance is usually to the university's benefit. The dollar amount associated with each self-reported item is based on the appropriations the university received for reporting the semester credit hours. On the other hand, instances of noncompliance identified through the audit sampling result in a greater dollar impact since they are projected to the entire population of appropriation dollars generated by semester credit hours.

Although a significant portion of the total self-reported corrections were identified by Texas A&M University, it should be noted that the University significantly improved tuition collection procedures during the Spring 1995 semester. This was the first semester following the release of the previous State Auditor's Office report on higher education formula funding (*An Audit Report on University Formula Funding*

Reporting, SAO Report No. 95-027, November 1994). Appendix 5 (page 28) includes information relating to Texas A&M University's improvement subsequent to the release of the previous report. This improvement is revealed in the decrease in the dollars associated with self-reported items across each of the semesters audited.

Recommendation:

Universities should maintain complete and accurate information and support for future self-reported items including student name, student identification number, semester, course, section, semester credit hours, funding code, and reason for noncompliance (reduction) or basis for claiming (addition). To encourage voluntary compliance through self-reporting, universities will be given the opportunity to identify and disclose corrections to the certified semester credit hour data prior to the beginning of the formula funding audit.

Texas Higher Education Coordinating Board Management's Response:

The Coordinating Board concurs with this recommendation.

Section 2:

Significant Weaknesses Were Noted at Four Universities

Significant weaknesses relating to the overreporting of semester credit hours were noted at:

- Texas Southern University
- Prairie View A&M University
- University of Houston
- The University of Texas at El Paso

Section 2-A:

Texas Southern University Did Not Maintain Sufficient TASP Documentation

Texas Southern University did not maintain sufficient TASP-related documentation for 44 of the 531 students tested for compliance with TASP requirements. The University could not provide documentation establishing that these students had either passed all parts of the TASP test, were exempt from taking the TASP test, or were enrolled in remediation. The Coordinating Board requires that each student fall in one of these three general categories in order for the student's semester credit hours to be eligible for funding. The 44 students for whom sufficient documentation was not maintained resulted in overfunding of \$3,654,994 when projected to Texas Southern University's appropriation dollars generated by semester credit hours.

Recommendation:

Texas Southern University should develop procedures to document each student's compliance with TASP requirements.

Texas Southern University Management's Response:

The recent audit of Texas Southern University's TASP Compliance status for 1994-95 was an excellent opportunity to confirm that some difficulties inherent in attempting to monitor over four thousand students for TASP compliance were due to the absence of a computerized monitoring system. However, out of the 531 students tested for compliance, we agree that sufficient documentation was not maintained for 43 of the 44 exceptions.

To improve its monitoring and tracking of TASP Responsible students, the University has implemented new computer-based processes. Persons involved in these processes include Academic Advisors, GUAC Laboratory Staff, Developmental Faculty and Records Room Personnel.

Spring 1996 was the semester we fully implemented the Enrollment Management TASP Monitoring screen. We are still working out some programmatic issues, but this screen has greatly improved our ability to monitor student compliance through special TASP codes and a registration hold on all TASP Responsible (TR) students.

TASP codes are used to run many different kinds of reports that give a quick check of TASP status for all TR students. For example, we will run enrollment reports of all TR's under 20 hours to ensure that all first year students are either in developmental courses or noncourse based support.

We have also placed in the course inventory, GUAC 101 - "Non course-based Laboratory" that allows us to enroll students in the General University Academic Center (GUAC) Laboratory and regularly run a printed class roster with the names of all students who should be attending laboratory/tutoring session every semester in preparation for TASP. This results in timely notification regarding compliance issues by the GUAC Lab staff. Academic Advisors will also use the class print out to help monitor for compliance to laboratory attendance policies.

Finally, we are now using the most extreme of the consequences associated with noncompliance - disenrollment. This has been used reluctantly since Spring 1995. In fact, some of those students who caused us difficulty in the Fall 1994 test sample were appropriately identified by the Spring 1995 and disenrolled during that semester.

Section 2-B:

Prairie View A&M Did Not Maintain Sufficient TASP Documentation or Comply With Tuition Collection Requirements

Prairie View A&M University received funding for students' semester credit hours for which sufficient TASP-related documentation was not maintained and tuition collection requirements were not met. These exceptions resulted in overfunding of \$1,680,319 when projected to Prairie View A&M University's appropriation dollars generated by semester credit hours.

The University did not maintain sufficient TASP-related documentation for 24 of the 531 students tested for compliance with TASP requirements. The University could not provide documentation establishing that these students had either passed all parts of the TASP test, were exempt from taking the TASP test, or were enrolled in remediation. Again, the Coordinating Board requires that each student fall in one of these three general categories in order for the student's semester credit hours to be eligible for funding. These 24 exceptions resulted in overfunding of \$1,222,050 when projected to Prairie View A&M University's appropriation dollars generated by semester credit hours.

The University also reported 9 students (of the 531 students tested for funding purposes) whose tuition had not been properly collected by the official reporting date. State law and Coordinating Board rules require the University to collect at least one-half of the students' tuition and fees by the official reporting date in order to receive funding. These 9 exceptions resulted in overfunding of \$458,269 when projected to Prairie View A&M University's appropriation dollars generated by semester credit hours.

Recommendation:

Prairie View A&M University should develop procedures to document each student's compliance with TASP requirements.

The University should also modify its collection procedures so that the proper amount of tuition is collected by the official reporting date.

Prairie View A&M University Management's Response:

Prairie View A&M University's first ever external review of compliance with TASP regulations has pinpointed some areas where we must tighten our internal checks and balances. Although the University has established procedures, we must do a better job of adhering to our own guidelines.

Starting immediately, we will perform a self-audit utilizing the documentation standards applied in this audit to ensure compliance with the applicable TASP

regulations for students reported on the CBM-004 Class Report. We will apply whatever resources are required to accomplish this task.

Currently, a list of students who have not met the official reporting date requirements regarding payment is generated electronically. Five of the students tested were excluded from this list because their accounts were listed as federal receivables as of the official reporting date. We are in the process of identifying the causes of the other instances and will develop appropriate procedures, including a review of students listed in paid status per Coordinating Board regulations, to help ensure that only paid students are reported for funding on future reports.

Section 2-C:

The University of Houston Did Not Accurately Report Students' Classification

The University of Houston did not accurately report the classification of all students reported to the Coordinating Board for funding purposes. In a sample of 531 students with varying classification levels, 8 were incorrectly classified at the higher-funded doctoral level. To be eligible for doctoral level funding, a student must have 30 hours of graduate work or a Master's degree. These exceptions resulted in overfunding of \$1,692,854 when projected to the University of Houston's appropriation dollars generated by semester credit hours.

Recommendation:

The University of Houston should develop policies and procedures to ensure that students are classified and reported as doctoral students only when they meet the criteria established by the Coordinating Board.

University of Houston Management's Response:

During the summer of 1996, the University implemented procedures to ensure students are only classified as doctoral students when they meet the criteria established by the Coordinating Board. Prior to reporting enrollments to the Coordinating Board, a report is generated which identifies all students classified as doctoral students. An automated review of the student record information for these students results in an exception report which lists all students that do not have a master's degree or at least thirty hours work toward a doctoral degree. The University's Registrar's Office, Admissions Office and the appropriate college/department review the students' files to determine whether the data is inaccurate or incomplete. Students not meeting the Coordinating Board's criteria for doctoral students are reclassified to the appropriate classification by the University's Office of Planning and Policy Analysis prior to submitting the enrollment reports to the Coordinating Board.

Section 2-D:

The University of Texas at El Paso Failed to Identify Some Students Not Enrolled in Required Remediation

The University of Texas at El Paso did not identify 7 students who should have been enrolled in a remediation course according to the TASP requirements. A sample of 531 students was tested to determine whether each student had either passed all parts of the TASP test, was exempt from taking the TASP test, or was properly enrolled in a remediation course. Seven students did not meet either of the first two requirements and should have been enrolled in a remediation course, but were not. The Coordinating Board requires that each student fall in one of these three general categories in order for the student's semester credit hours to be eligible for funding. The 7 students who were not properly enrolled in a remediation course resulted in overfunding of \$839,963 when projected to The University of Texas at El Paso's appropriation dollars generated by semester credit hours.

Recommendation:

The University of Texas at El Paso should enhance its procedures to identify students who have not enrolled in required remediation.

The University of Texas at El Paso Management's Response:

A total of seven errors were identified in a total sample population of 531, a 1.3% error rate. With one exception, all reported discrepancies related to the "immediate remediation" requirement set forth by the Texas Higher Education Coordinating Board.

UTEP has always employed a mechanism to identify students who did not pass a portion of the TASP examination and to advise them of the need to enroll in remedial classes. We have not, however, disenrolled students who failed to take remedial courses. In the case of all seven findings, the students did enroll in remedial courses in subsequent semesters, and none was permitted to enroll in upper division courses. We believe that our approach was fair to students, cost-effective, and reasonable within the spirit of the Texas Education Code rules governing remediation (51.306, Sections F&G). In response to this audit, however, we have changed our procedures and will make every effort to comply.

The TASP policies that have been incrementally adopted and disseminated by the Texas Higher Education Coordinating Board have become so complex and their implementation so onerous that monitoring, notifying, and disenrolling students has become a major administrative problem, as well as a major institutional cost. Coordinating Board rules are endlessly expanded and amended, and new rules are regularly adopted to clarify earlier rules that are unintelligible or unworkable. This situation is exacerbated in UTEP's setting, where progress toward degrees is greatly affected by employment and family obligations, and where students frequently transfer

in and out. Each student's record must be repeatedly subjected to TASP compliance reviews and rule interpretations. Moreover, it would appear that UTEP is not alone in this quagmire; the "Ask Dr. TASP" section of the Texas Academic Skills Council's newsletter underscores the complexity of the TASP regulations and the confusion they appear to be causing elsewhere.

Finally, it should be noted that within the context of the "all funds" appropriation, the amount used as a base to claim overfunding in this report includes Local Educational and General Income, 26.4% of UTEP's total appropriation, which should be deducted.

Section 3:

The Installment Collection Requirements Are Not Applied Consistently to Courses Added After the Initial Registration Period

Universities do not apply a consistent method for collecting tuition and fees to courses added after the initial registration period. The Texas Education Code, Section 54.007, and Coordinating Board rules allow universities to receive funding for their semester credit hours when they collect at least one-half, rather than all, of each student's tuition and fees by the official reporting date. Although all universities use the installment option of collecting tuition and fees, consistent procedures are not used to collect tuition and fees for courses added after the student's initial registration period.

The audit identified different applications being used by the universities. Each university collects at least one-half of the required tuition and fees at the initial registration. However, the different methods used to collect tuition and fees for courses added after the initial registration include:

- Deferring **all** additional tuition and fees from added courses to the remaining installment payments
- Deferring **one-half** of the additional tuition and fees from added courses to the remaining installment payments and requiring the student to pay one-half of all the tuition and fees related to the courses added
- Deferring **none** of the additional tuition and fees from added courses and requiring the student to pay for all of the tuition and fees related to the courses added

In each case, a different amount of tuition and fees would be collected by the official reporting date. Depending on the application which is determined to be appropriate, some universities may be overreporting semester credit hours using their current collection policies.

The Coordinating Board establishes the requirements for reporting semester credit hours to be used in the formula funding process.

Recommendation:

The Coordinating Board should clarify the requirements for collecting tuition and fees for courses added after the original registration period and communicate any changes to the universities.

Texas Higher Education Coordinating Board Management's Response:

For purposes of reporting, students are required to pay at least one-half of their tuition and fees by the official reporting date for all of their classes reported to the Coordinating Board. That includes courses added after their initial registration.

Section 4:

The Terminology Regarding the Collection of Tuition and Fees Is Not Consistent

The terminology used in the various rules and regulations regarding the collection of tuition and fees is not consistent. In order for a university to receive semester credit hour funding, some of the rules require universities to collect both tuition and fees by a specified point in time. Another requires only the collection of tuition. Consistent terminology in the rules and regulations will allow universities to consistently collect tuition and fees and report semester credit hour data used in the formula funding process.

Three sources are considered when determining whether collections by the university, for purposes of reporting semester credit hours, should be for tuition and fees or just tuition. These sources include:

Figure 3

Source	Requirement
The Texas Education Code, Section 54.007	Tuition and Fees
The Coordinating Board's <i>Reporting and Procedures Manual for Public Universities</i> , page 1.2	Tuition and Fees
The 1996-97 General Appropriations Act, Article III, Section 18	Tuition

Recommendation:

The Coordinating Board should revise the terminology in legislative requirements and Coordinating Board rules regarding the collection of tuition and fees so that it is consistent. Any changes should also be communicated to the universities.

Texas Higher Education Coordinating Board Management's Response:

Universities should require at least one-half payment of tuition AND fees. Although the Appropriations Act does not presently require one-half payment of fees, the Texas Education Code does. We agree that the wording in the Appropriations Act should be changed to make it fully consistent with the Texas Education Code. As stated, however, it is not consistent. All legislatively-authorized fees must be collected on a schedule consistent with the Texas Education Code and Coordinating Board rules and procedures.

Section 5:

Educational and General Revenues Are Materially Accurate

A review of the reported actual fiscal year 1994 education and general (E&G) revenues noted that the amounts are materially accurate. These amounts were also used to request appropriations for the 1996-1997 biennium. Many of the amounts reported as actual were in many cases based on good estimates rather than final account balances. Eventually, the final account balances are presented to the Legislative Budget Board prior to final appropriation decisions. The objective was to audit the accuracy of E&G revenues included in each university's Legislative Appropriations Request.

Objectives, Scope, and Methodology

Objectives

The primary objectives of the audit were to:

- Audit the accuracy of the variables in selected formulas used in calculating 1996 and 1997 formula funding appropriations.
- Report any differences between university records and data submitted by the universities to the Coordinating Board.
- Determine the accuracy of fiscal year 1994-1995 education and general revenues reported in the universities' Legislative Appropriations Requests.

Scope

The scope of the audit focused on the accuracy of the variables of selected formulas. The funding formulas are used to allocate appropriations to each university. There are 15 funding formulas, each driven by variable data reported by universities. Four formulas were selected for the audit: faculty salaries, departmental operating expenses, library, and instructional administration. These four formulas account for 79 percent of the almost \$2.5 billion funded by formulas during the 1996-1997 biennium.

Semester credit hours is the only variable for each of these formulas. It is reported to the Coordinating Board in the CBM-004 Class Report. All 35 universities receiving semester credit hour formula funding appropriations were audited for compliance with state statutes, General Appropriations Act riders, and the Coordinating Board's rules and regulations. Audit procedures concentrated on testing the accuracy of student compliance with TASP requirements, classification, collection of tuition, and class size reporting. Verifying these items allowed us to attest to the accuracy of reported semester credit hours. Test work concentrated on the base period semesters used to calculate funding for the 1996-1997 biennium. These semesters were Summer 1994, Fall 1994, and Spring 1995.

Methodology

The formula funding audit methodology included:

- Using an attribute sampling methodology to test the accuracy of the semester credit hours used in calculating appropriations (See Sampling and Testing Methodology in Appendix 1.1, page 16.)
- Reviewing self-reported corrections provided by each university and calculating the dollar impact on appropriations

- Reviewing the documentation supporting educational and general revenue amounts included in each university's Legislative Appropriations Request

Self-Reported Corrections - Since the audit sample was drawn from certified data, and there is no other means for the universities to make corrections to enrollment data once it is certified by the Coordinating Board, universities were encouraged to self-report corrections prior to audit testing. This self-reporting process is the way to compensate for known exceptions in the certified data. Dollar amounts based on the actual funding rate for the specific item reported will increase or decrease any over- or underfunding from compliance testing.

Review of Educational and General Revenues - A review was conducted of the educational and general revenue amounts in Schedule 1 of each university's Legislative Appropriations Request. This review consisted of analytical procedures and included tracing amounts to the universities' annual financial reports, performing trend analyses of net tuition and indirect costs, and evaluating the procedures for estimating revenues for future fiscal years.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards.

Other Information

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

- Mark E. Dan, CPA (Project Manager)
- Anthony G. Claire
- Marcia Carlson Davis
- Angelica M. Morales
- Susan J. McClean, CPA
- Thomass W. Ng, CPA
- Jarrett A. Oliver
- W. Joe Seitz
- Charles R. Hrcir, CPA (Audit Manager)
- Deborah L. Kerr, Ph.D. (Audit Director)

Sampling and Testing Methodology

It would not be cost effective to perform a 100 percent audit of all formula funding data. For this reason, statistical sampling is used to estimate the accuracy of the total population of semester credit hours submitted by a university for funding. Statistical sampling procedures provide unbiased estimates of semester credit hours that are improperly reported to within specified limits, with high and quantifiable probability.

Detailed Explanation of the Sampling Methodology

Dollar Unit Sampling - The scientific foundation for the projection of sample results to the total population of semester credit hour dollars is a statistical sampling methodology known as “dollar unit sampling” (DUS), or “probability proportional to size” (PPS). The essence of dollar unit sampling is to select a random sample of dollars (dollar units) from the population of all semester credit hour dollars received by each university. The records of students and classes associated with the sampled dollars are then audited for compliance with state funding requirements. This procedure gives an equal chance of selection to every dollar in the population. Thus, students who register for more semester credit hours, or higher-level courses such as doctoral courses, will have a higher probability of being in the sample than students who register for fewer hours or lower-level courses. In addition, it is possible for more than one sampled dollar to be associated with the same student.

In order to identify the total population of dollars to be tested, semester credit hours submitted by each university are multiplied by the associated actual funding rates. The actual funding rates are determined by multiplying the recommended Coordinating Board rates times the Legislature’s funding percentage.

Selecting the Sample - The sample is randomly selected from the total population of appropriation dollars generated by semester credit hours. The sampling unit is an individual dollar. Each selected dollar is associated with a specific course and student (taken from the CBM-004 Class Report) whose records are audited for compliance with state requirements to determine the student's qualification for funding.

Determining the Sample Size - The following parameters are used to determine the sample size:

- A 90 percent confidence level that the sample error reflects the true error rate of the population
- A 2 percent expected maximum error rate of the population
- A 1 percent tolerable margin of error

Given these parameters, the sample size is calculated in two stages. The preliminary sample size is 114 individual dollars. If no exceptions are found in this sample, the population is said to have met the criteria, and no additional testing is performed. If one or more exceptions are found, the sample size is expanded by 417 to 531

individual dollars. The increased sample size is required in order to project the results to the total population.

Performing the Audit - Once the sample is selected, the records for each student associated with a sampled dollar are audited. The sample identifies which class and student in the class (per the CBM-004 Class Report) is to be audited. For example, if the sample item is the 15th of 20 students enrolled, the auditor refers to the class roster to find the name of the 15th student.

Each student is tested for compliance with applicable rules and regulations for the following attributes:

- Texas Academic Skills Program (TASP): The student's records must contain documentation that the student meets all TASP requirements set forth by the Coordinating Board. For each student in the sample, documentation was reviewed to determine whether the sample student had either taken the TASP test if the student had completed nine or more semester credit hours, was exempt from taking the TASP test, or was enrolled in remediation for at least one of the parts not passed.
- Student Classification: The classification of the student (such as undergraduate, master's, or doctoral) as reported to the Coordinating Board must correspond to the student's classification according to university records.
- Proper Tuition Collected by the Official Reporting Date: The university is required to collect at least one-half of the amount of tuition established by the university on or before the official reporting date. If applicable, the dates and amounts of classes added or dropped are audited to ensure that the student qualifies for state funding.

Any instances of noncompliance with state or Coordinating Board rules and regulations are considered exceptions in the sample. **The degree to which a sample item is an exception is not a factor in the semester credit hour testing.**

Calculating Sample Results - The sample error rate is projected to the university's population of biennially appropriated dollars generated by semester credit hours.

The total number of exceptions in the university's sample is divided by the sample size to determine the sample error rate. (Remember, if any exceptions are found in the initial sample of 114, the sample is expanded to 531.) The error rate is then projected to the appropriation dollars generated by semester credit hours. This projection is done by multiplying the appropriation dollars generated by semester credit hours by the sample error rate to produce the amount of the over- or underfunding.

The sample error rate is our best estimate of the true error rate of the population. It is possible that the sample error rate will differ somewhat from the true error rate. The sample error rate is about as likely to be below the true error rate as to be above. But the precision interval (margin of error) governs how far the sample error rate may differ from the true error rate. As stated in "Determining the Sample Size," the

precision interval is no more than +/- 1 percent, based on a true error rate not expected to exceed 2 percent. This means that the State Auditor's Office is 90 percent confident that the sample error rate will lie within one percent of the true error rate, either above or below. Or to put it another way, the risks of overreporting and underreporting are evenly divided between the State and the university, but the precision interval limits the likely amount of over- or underreporting. (See the formula on page 19.)

Example of Projecting Sampling Exceptions to the Population - Assume that a university with \$20 million in appropriations generated by semester credit hours for the 1996-1997 biennium had one exception in the first 114 individual dollars sampled and two more in the remaining 417, for a total of three exceptions out of a sample size of 531 individual dollars. The over- or underfunding is calculated as follows:

Figure 4

STEP 1: Determine Sample Error Rate		
<u>3 (total number of exceptions)</u>	=	.005649717 Sample error rate
531 (sample size)		
STEP 2: Apply Sample Error Rate to Appropriations		
\$20,000,000		Biennial appropriations generated by semester credit hours
x <u>.005649717</u>		Sample error rate
<u>\$112,994.34</u>		Overfunding from attribute testing

This \$112,994.34 is the best estimate of the true error in the total population of \$20 million based on our sample. By applying the precision interval of +/- one percent, the possible range of the true error could be as low as \$5,980 and as high as \$220,000. This range is calculated by using the formula on page 19.

Figure 5

Confidence Interval Calculations

Confidence Interval Formula

$$e \pm 1.645 \sqrt{\frac{e(1-e)}{531}}$$

Note: e = sample error rate

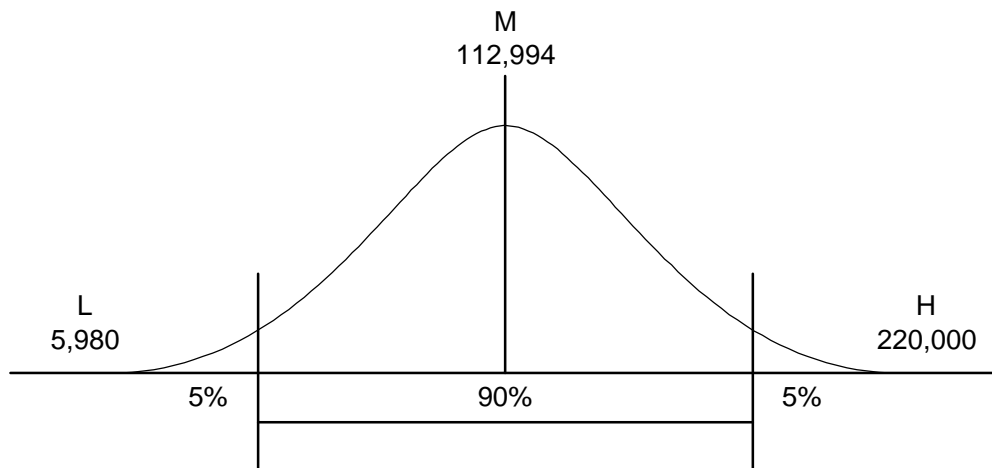
Lower End of Confidence Interval Calculation:

$$.005649717 - 1.645 \sqrt{\frac{.005649717 \times .99435}{531}} = .000299 \text{ (rounded)} \times \$20,000,000 = \underline{\$5,980}$$

Higher End of Confidence Interval Calculation:

$$.005649717 + 1.645 \sqrt{\frac{.005649717 \times .99435}{531}} = .011000 \text{ (rounded)} \times \$20,000,000 = \underline{\$220,000}$$

Depicted on a bell curve this would look like:



Note: The further to the left or right you go on the curve towards Low (L) and High (H), the probabilities decrease that the true error is in those ranges.

Student Classification Test - The projection of student classification exceptions is similar to the projection of exceptions for noncompliance with collection of tuition or TASP. In terms of funding, the university was entitled to receive funding for the student tested. However, due to the misclassification of the student, the university was funded at either a higher or lower rate than it should have been. In these cases, only the difference in funding is included in the projection formula.

Figure 6a

Example

Given that: Number of Classification Exceptions in the Program (example, Business Administration)	=	3
Sample Size	=	531
Funding for Doctoral Level Semester Credit Hour (Actual Funding)	=	\$ 1,147.45
Funding for Master's Level Semester Credit Hour (Proper Funding)	=	\$ 370.31
Biennial Appropriations Generated By Semester Credit Hours	=	\$20,000,000

What would the overfunding be due to these three classification exceptions?

Figure 6b

Solution

STEP 1: Determine Sample Error Rate		
$\frac{3 \text{ (total \# of exceptions)}}{531 \text{ (sample size)}} = .005649717 \text{ Sample error rate}$		
STEP 2: Determine Excess Funding in Dollars		
For each exception within the SAME funding program (e.g., Business Administration):		
Funding Received per Semester Credit Hour		\$ 1,147.45
Proper Funding		<u>370.31</u>
Excess Funding Received		\$ 777.14

Figure 6b

Solution, concluded

STEP 3: Determine Excess Funding Percentage					
$\frac{\text{Excess Funding Received}}{\text{Funding Received}} = \frac{777.14}{1,147.45} = 67.7276\%$					
STEP 4: Apply Excess Funding Percentage to Sample Error Rate and Appropriations					
Excess Funding Percentage	x	Sample Error Rate	x	Appropriations	= Overfunding
67.7276%	x	.005649717	x	\$20,000,000	= \$76,528.33

This \$76,528.33 is the best estimate of the true error in the total population of \$20 million based on our sample.

By applying the precision interval of +/- one percent, the possible range of the true error could be as low as \$4,051.83 and as high as \$149,004.83. This range is calculated by using the formula on page 19 and applying the excess funding percentage.

Class Size Test - In addition to testing the three attributes listed on page 17, each selected class is tested for accuracy of enrollment reporting, or class size. The class rosters containing the sampled students are obtained. The number of students on the roster is then compared to the number of students reported for that class on the CBM-004 Class Report. The objective of testing this attribute is to determine whether a university is over- or underreporting enrollment to the Coordinating Board. The results of the class size test cannot be projected to the population in the same manner as the other attributes since it includes the testing of non-sampled students.

As a result, a separate projection formula is used based on the total number of students tested in the classes tested for the class size attribute. Over- or underfunding for the class size attribute is calculated as follows:

Figure 7

STEP 1: Determine Total Number of Students Tested	
Determine the total number of students in the classes tested for the class size attribute.	
STEP 2: Calculate Net Class Size Exceptions	
Total underreported enrollment - <u>Total overreported enrollment</u> = Net enrollment exceptions	
STEP 3: Determine Error Rate	
$\frac{\text{Net enrollment exceptions}}{\text{Total number of students tested}} = \text{Sample error rate for class size attribute}$	
STEP 4: Calculate Over- or Underfunding	
Sample error rate x <u>Biennial appropriations generated by semester credit hours</u> = Over- or Underfunding resulting from testing of class size	

Figure 8a

Example

Given that:		
Total Number of Students Tested	=	15,930
Net Enrollment Exceptions - Overstated	=	5
Biennial Appropriations Generated By Semester Credit Hours	=	\$20,000,000

What would be the overfunding of appropriations be?

Figure 8b

Solution

STEP 1: Determine Sample Error Rate	
$\frac{5 \text{ exceptions}}{15,930 \text{ total \# of students tested}}$	= .000313873 Sample error rate

STEP 2: Calculate Over or Underfunding	
.000313873	Sample error rate
x \$20,000,000	Biennial appropriations generated by semester credit hours
\$ 6,277.46	Overfunding resulting from testing of class size

Background

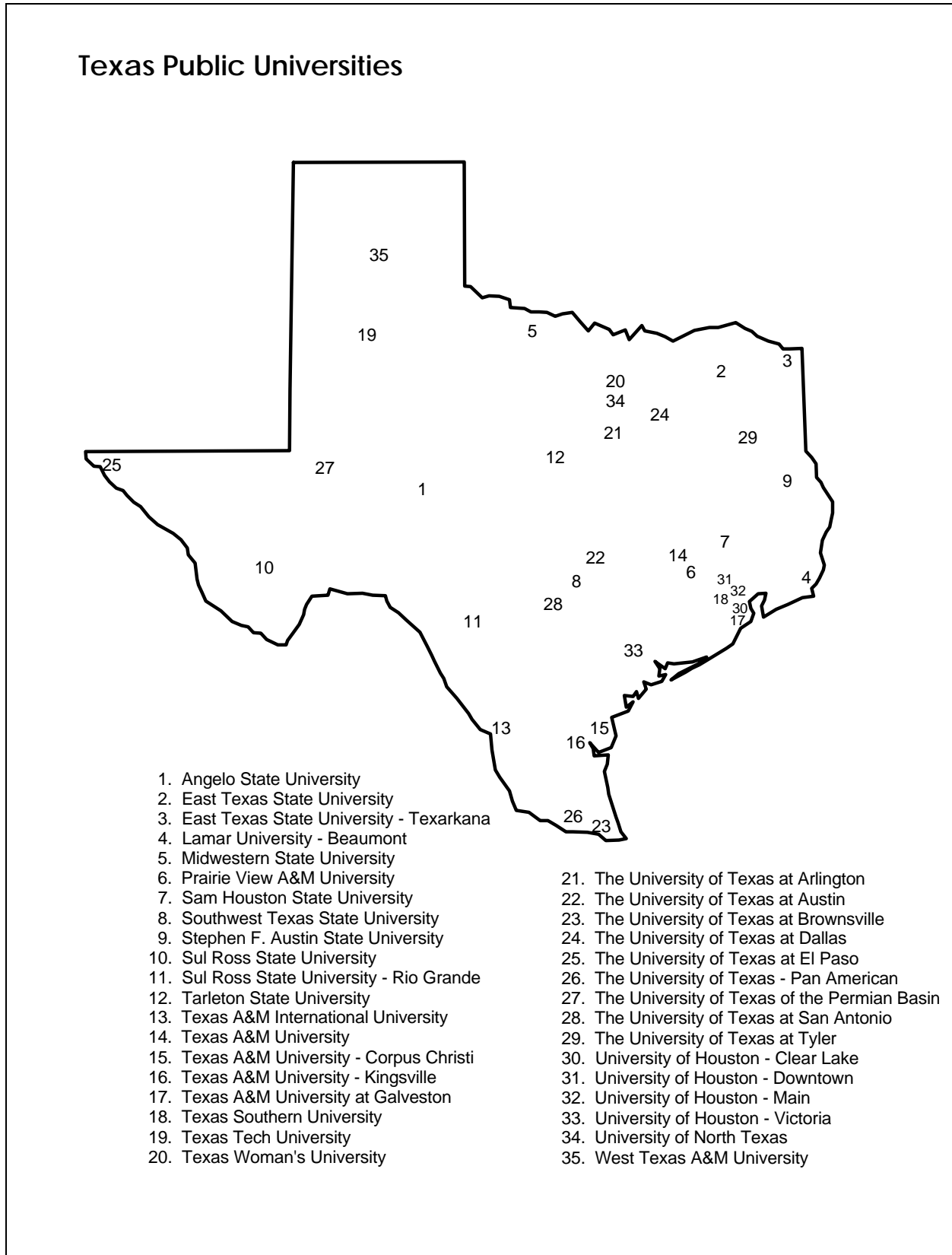
State financing of higher education programs for public universities for the 1996-1997 biennium totaled almost \$2.5 billion. The appropriation is allocated to each university based on formulas recommended by the Coordinating Board. Some funding is collected locally by the universities through tuition, fees, and other sources. The remaining funding is provided from the state's General Revenue Fund. Texas will provide funding to 35 universities and 4 health science center nursing programs during the 1996-1997 biennium.

Enrollment reports were submitted by each university to the Coordinating Board. The information in these reports includes the number of semester credit hours taught by each university during the base period. The base period included the Summer 1994, Fall 1994, and Spring 1995 semesters.

Each public university must qualify under, and comply with, the rules and regulations of the Texas Education Code, the General Appropriations Act, and the Coordinating Board in order to receive funding. General Appropriations Act, Article III, Section 21 (*Formula Variable and Educational and General Income Audits*) requires the State Auditor to audit the accuracy of all variables of selected formulas used in making the 1996 and 1997 formula appropriations.

The previous formula funding audit covered 15 universities. The audit report, *An Audit Report on University Formula Funding Reporting*, SAO Report No. 95-027, noted that for the 15 universities audited, there was a net compliance rate of 99.7 percent. This compares to the 35 universities included in this report with a net compliance rate of 99.6 percent.

Figure 9



Appendix 3:

Sample Testing Results by Attribute

Figure 10

University	Appropriation Dollars Generated by Semester Credit Hours	Texas Academic Skills Program (TASP)	Student Classification	Tuition Collection	Class Size	Projection of (Over-) or Underfunding
Angelo State University	\$ 23,617,727	\$ 0	\$ 0	\$ (44,478)	\$ 0	\$ (44,478)
East Texas State University	35,407,988	0	0	0	0	0
East Texas State University - Texarkana	4,147,736	0	0	0	0	0
Lamar University - Beaumont	35,337,219	0	0	0	0	0
Midwestern State University	21,135,568	0	0	0	\$1,188	1,188
Prairie View A&M University	27,037,843	(\$1,222,050)	(\$58,909)	(\$458,268)	0	(1,739,227)
Sam Houston State University	49,716,946	0	0	0	(10,813)	(10,813)
Southwest Texas State University	81,113,108	0	0	0	23,436	23,436
Stephen F. Austin State University	51,553,259	0	0	0	0	0
Sul Ross State University	11,142,390	0	0	0	(885)	(885)
Sul Ross State University - Rio Grande College	2,430,027	0	0	0	(3,004)	(3,004)
Tarleton State University	25,585,320	0	0	0	0	0
Texas A&M International University	7,777,910	0	0	0	(3,649)	(3,649)
Texas A&M University	247,899,475.36	0	0	0	(9,148)	(9,148)
Texas A&M University - Corpus Christi	24,136,289	(90,909)	0	0	(16,549)	(107,458)
Texas A&M University - Kingsville	28,738,476	(54,121)	0	0	0	(54,121)
Texas A&M University at Galveston	5,081,746	0	0	(47,851)	6,622	(41,229)
Texas Southern University	44,109,134	(3,654,994)	0	0	1,940	(3,653,054)
Texas Tech University	130,738,549	0	0	0	0	0
Texas Woman's University	63,989,075	0	0	(241,013)	0	(241,013)
The University of Texas at Arlington	111,981,812	0	0	0	0	0
The University of Texas at Austin	315,902,216	0	0	0	0	0
The University of Texas at Brownsville	7,612,028	0	0	0	789	789
The University of Texas at Dallas	55,988,065	0	0	0	0	0
The University of Texas at El Paso	63,717,231	(839,963)	0	(239,990)	0	(1,079,953)
The University of Texas - Pan American	46,574,827	0	0	0	0	0
The University of Texas of the Permian Basin	7,378,566	(13,896)	0	0	0	(13,896)
The University of Texas at San Antonio	60,857,237	0	0	0	0	0
The University of Texas at Tyler	17,367,962	0	0	0	0	0
University of Houston - Clear Lake	32,311,262	0	0	0	0	0
University of Houston - Downtown	19,208,666	0	0	0	0	0
University of Houston - Main	176,123,451	0	(1,692,854)	0	0	(1,692,854)
University of Houston - Victoria	5,415,360	0	0	0	0	0
University of North Texas	125,688,381	0	0	0	0	0
West Texas A&M University	\$ 25,993,499	\$ 0	\$ 0	\$ 0	\$ (15,090)	\$ (15,090)
TOTAL	\$ 1,992,816,352	\$ (5,875,933)	\$ (1,751,763)	\$ (1,031,600)	\$(25,163)	
					NET OVERFUNDING	\$(8,684,459)
					OVERFUNDING PERCENTAGE	(0.4358%)
					OVERALL ACCURACY RATE PERCENTAGE	99.5625%

Appendix 4:

Number of Exceptions by Attribute

Figure 11

University	Attribute				
	TASP	Student Classification	Tuition Collection	Class Size	
				Over-Reported	Under-Reported
Angelo State University			1		
Midwestern State University					1
Prairie View A&M University	24	4	9		
Sam Houston State University				5	
Southwest Texas State University				7	16
Sul Ross State University				1	
Sul Ross State University - Rio Grande College				5	2
Texas A&M International University				7	3
Texas A&M University				1	
Texas A&M University - Corpus Christi	2			10	1
Texas A&M University - Kingsville	1				
Texas A&M University at Galveston			5	18	30
Texas Southern University	44			2	3
Texas Woman's University			2		
The University of Texas at Brownsville					1
The University of Texas at El Paso	7		2		
The University of Texas of the Permian Basin	1				
University of Houston - Main		8			
West Texas A&M University				9	
TOTAL	79	12	19	65	57

Appendix 5:

Self-Reported Corrections by Attribute and Semester

Figure 12

University	Attribute	Summer	Fall	Spring	Attribute Total	(Over-) or Underfunding for all Attributes Resulting from University Self-Reported Corrections
East Texas State University	Tuition Collection	\$ (5,908)	\$ (6,936)	\$ 0	\$ (12,844)	\$ (12,844)
East Texas State University - Texarkana	TASP	0	(2,051)	(2,051)	(4,102)	(7,856)
	Tuition Collection	(3,333)	0	(421)	(3,754)	
Lamar University - Beaumont	TASP	0	0	(2,508)	(2,508)	(2,823)
	Tuition Collection	0	0	(315)	(315)	
Prairie View A&M University	TASP	(5,182)	(79,070)	(42,015)	(126,267)	(126,267)
Southwest Texas State University	Tuition Collection	0	0	674	674	674
Stephen F. Austin State University	Tuition Collection	(28,803)	(9,025)	(6,174)	(44,002)	(44,002)
Sul Ross State University	Tuition Collection	(6,374)	(3,724)	(2,240)	(12,339)	(12,339)
Sul Ross State University - Rio Grande College	Tuition Collection	0	(421)	0	(421)	(421)
Texas A&M International University	Tuition Collection	0	(861)	(2,111)	(2,972)	(2,972)
Texas A&M University	Tuition Collection	(1,700,281)	(878,858)	(97,280)	(2,676,420)	(2,676,420)
Texas A&M University - Corpus Christi	Tuition Collection	(4,954)	0	0	(4,954)	(4,954)
Texas A&M University - Kingsville	Class Size	143,109	0	0	143,109	119,000
	TASP	(11,992)	0	(1,498)	(13,490)	
	Tuition Collection	(4,854)	916	(6,682)	(10,620)	
Texas Southern University	TASP	(315)	(3,524)	(2,945)	(6,784)	(6,784)
The University of Texas at Arlington	Tuition Collection	(21,938)	(54,640)	(5,302)	(81,880)	(81,880)
The University of Texas at Dallas	Tuition Collection	0	(1,924)	(2,560)	(4,485)	(4,485)
The University of Texas - Pan American	TASP	(630)	(315)	0	(946)	(7,869)
	Tuition Collection	2	(3,918)	(4,948)	(6,923)	
The University of Texas of the Permian Basin	Tuition Collection	\$ 0	\$ (9,271)	\$ (5,163)	\$ (14,434)	\$ (14,434)
NET OVERFUNDING		\$ (1,649,512)	\$ (1,053,622)	\$(183,542)	\$(2,886,676)	\$ (2,886,676)

Confidence Intervals of Projected Audit Results

The dollar-unit sampling methodology allows the State Auditor's Office to estimate the error rate in the population. The sample error rate and the projection based on the error rate allow us to provide the best estimate of the true error rate in the population within specified parameters. Those parameters allow us to state how close the sample error rate and the projected error rate are expected to be to the true error rate in the population.

The confidence interval is the range of values inside of which an estimated population parameter will fall. In the diagram on page 19, the range of values is from \$5,980 (lower end of the confidence interval) to \$220,000 (upper end of the confidence interval). In this application, as shown on the diagram, the State Auditor's Office can be 90 percent confident that the actual error rate falls within the range of values represented by \$5,980 and \$220,000.

The following table includes the confidence intervals for the exceptions noted during the testing at each university:

Figure 13

University	Appropriated Dollars Generated by Semester Credit Hours	Attribute	Lower Confidence Interval - (Over-) or Underfunding	Upper Confidence Interval - (Over-) or Underfunding	Projection of Audit Exceptions- (Over-) or Underfunding	University Total for all Attributes
Angelo State University	\$ 23,617,727	Tuition Collection	\$ 28,619	\$ (117,575)	\$ (44,478)	\$ (44,478)
Midwestern State University	21,135,568	Class Size-Underreported	(766)	3,141	1,188	1,188
Prairie View A&M University	27,037,843	TASP/Tuition Collection	(1,214,337)	(2,146,298)	(1,680,318)	(1,739,227)
		Classification-Teacher Education	9,484	(127,303)	(58,909)	
Sam Houston State University	49,716,946	Class Size-Overreported	(2,859)	(18,766)	(10,813)	(10,813)
Southwest Texas State University	81,113,108	Class Size-Underreported	24,534	58,795	41,665	23,436
		Class Size-Overreported	(6,896)	(29,560)	(18,228)	
Sul Ross State University - Rio Grande College	11,142,390	Class Size-Overreported	571	(2,342)	(885)	(885)
Texas A&M International University	7,777,910	Class Size-Overreported	(2,417)	(10,355)	(6,386)	(3,649)
		Class Size-Underreported	138	5,336	2,737	
Texas A&M University	247,899,475	Class Size-Overreported	5,900	(24,196)	(9,148)	(9,148)

Figure 13, concluded

University	Appropriated Dollars Generated by Semester Credit Hours	Attribute	Lower Confidence Interval - (Over) or Underfunding	Upper Confidence Interval - (Over) or Underfunding	Projection of Audit Exceptions- (Over) or Underfunding	University Total for all Attributes
Texas A&M University - Corpus Christi	\$ 24,136,289	TASP	\$ 14,636	\$ (196,454)	\$ (90,909)	\$ (107,458)
		Class Size-Overreported	(8,826)	(27,950)	(18,388)	
		Class Size-Underreported	(1,186)	4,864	1,839	
Texas A&M University - Kingsville	28,738,476	TASP	34,824	(143,067)	(54,121)	(54,121)
Texas A&M University at Galveston	5,081,746	Tuition Collection	(12,815)	(82,887)	(47,851)	(41,229)
		Class Size-Underreported	11,591	21,519	16,555	
		Class Size-Overreported	(6,085)	(13,780)	(9,933)	
Texas Southern University	44,109,134	TASP	(2,786,947)	(4,523,042)	(3,654,994)	(3,653,054)
		Class Size-Underreported	293	11,349	5,821	
		Class Size-Overreported	633	(8,394)	(3,881)	
Texas Woman's University	63,989,075	Tuition Collection	38,803	(520,830)	(241,013)	(241,013)
The University of Texas at Brownsville	7,612,028	Class Size-Underreported	(509)	2,087	789	789
The University of Texas at El Paso	63,717,231	TASP/Tuition Collection	(492,819)	(1,667,087)	(1,079,953)	(1,079,953)
The University of Texas of the Permian Basin	7,378,566	TASP	8,941	(36,732)	(13,896)	(13,896)
University of Houston - Main	176,123,451	Classification - Engineering	(561,386)	(2,375,040)	(1,468,213)	(1,692,854)
		Classification - Business	144,545	(593,826)	(224,641)	
West Texas A&M University	\$ 25,993,499	Class Size-Overreported	\$ (6,818)	\$ (23,362)	\$ (15,090)	\$ (15,090)

Coordinating Board Interpretations

Office of the State Auditor



OFFICE OF THE STATE AUDITOR

TWO COMMODORE PLAZA
206 EAST NINTH STREET, SUITE 1900
AUSTIN, TEXAS 78701

August 20, 1996

Dr. Kenneth Ashworth, Commissioner
Texas Higher Education Coordinating Board
7745 Chevy Chase Dr.
Austin, TX 78752

Dear Dr. Ashworth:

We have completed the fieldwork for the Higher Education Formula Funding Variables Audit. As a result of this work, we have identified a number of issues needing interpretation by the Texas Higher Education Coordinating Board. Resolution of these issues will allow the universities to consistently report semester credit hour formula funding data.

Enclosed is a list of questions developed by the State Auditor's Office and, at our request, additional questions and comments from the audited universities.

A draft report containing the results of each university audit is scheduled to be sent to each university president by the end of August. The final report should be released by the end of September.

We would appreciate your consideration of these issues as well as your responses in writing. If you should have any questions, please contact me at 479-4840.

Sincerely,

Mark E. Dan, CPA
Formula Funding Project Manager

MED/ggh

Enclosure

cc: Ms. Lauri Devinney, Higher Education Manager, Legislative Budget Board

State Auditor's Office Questions

1. The Texas Education Code, Section 54.007, *Option to Pay Tuition by Installment*, states that tuition and fees should be collected by the "beginning of the semester." What is the appropriate interpretation of the phrase "beginning of the semester"? University interpretations include the first day of classes and the official reporting date. The Coordinating Board's *Reporting and Procedures Manual for Public Universities* (page 1.2) uses the official reporting date.
 - a. If the beginning of the semester is the first day of classes, is a student who registers (or adds courses) after the start of classes prohibited from using the installment method?
 - b. If the beginning of the semester is the official reporting date, are students required to pay at least half of the tuition and fees for ALL of their classes reported to the Coordinating Board? For example, if a student registers for classes and pays one-half, then adds more classes, will the student be required to pay for one-half of the added courses as well prior to the official reporting date? If so, the practice of including charges for added classes to the second and third installment payment would be considered noncompliance.
2. Section 54.007 of the Education Code and the Coordinating Board's *Reporting and Procedures Manual for Public Universities* (page 1.2) both mention that tuition and fees should be collected by a specified time. However, the 1996-1997 Appropriations Act mentions that only tuition should be collected on or before the dates for reporting official enrollments. The Coordinating Board will need to pursue gaining consistency among the various legislative requirements and the Coordinating Board's reporting requirements. In the meantime, should universities require at least one-half payment of tuition AND fees, or tuition only, in determining whether to include a student in the CBM-004 Class Report?
 - a. If the universities are required to collect tuition only, it would appear that they would be in noncompliance with the Education Code. The difference in wording would need to be revised to be consistent.
 - b. If universities are required to collect tuition and fees, then which fees would be required to be collected in determining proper payment by the official reporting date?
3. If a student does not pay their tuition by the official reporting date, can a university pay the tuition using auxiliary, designated, or other sources of local but non-state funds?
4. On September 1, 1993, you issued guidelines to the State's junior colleges concerning the processing of returned checks and the applicability of reporting those students on the CBM-004 Class Report. That memo states that:

"Returned checks must be covered by a transfer from a self-supporting auxiliary enterprise fund or other non-state fund source within ten days of the date the institution received the returned check in order for contact hours to be presented to the state for funding."

Will this same guideline apply to universities as well?

University Questions and Comments

5. What is the purpose of basing eligibility for funding on payment of tuition by the official census date?
6. Can existing statutes and rules pertaining to registration, fee collection, and reporting be revised to help eliminate inefficiencies and permit greater innovation in higher education administration?
7. (Additional comment for Question 1.b. above): This does not seem to be the intent of the legislature since the installment fee was established to ease the burden on students.
8. (Additional comment for Question 2 above): Can the payment due date be set later than the official reporting date in order to maximize efficiency?
9. (Additional question for Question 4 above): In many cases, the notice may take more than 10 days to reach the student. What relation does this have to the funding process?
10. If a student does not pay for courses added after the initial registration period can the university pay the tuition for the student using designated funds or other institutional funds (funds other than Educational and General Funds)?

Payment would be made before the 12th class day. For example, a student will register for classes, pay his bill, then add one or more classes before the 12th class day. (Students are permitted to add courses up to the 12th class day.) The University will collect the fees for the classes added within a reasonable time, but it is difficult to bill the student and collect all payments for adds by the 12th class day. In such cases, it would be better for the University to advance institutional funds to make the payments, rather than lose state appropriations. That is, the University has the burden of teaching the classes and, therefore, needs the funding for the instructional costs.

11. This timing of this survey is particularly troubling to me. If the questions being asked are to be answered and the results used in auditing the present base year we really needed to know before now. We have already finished Summer 1 and 2, and Fall registration is well under way. For example, the past audit was based on tuition only - fees were not audited. We are conducting business according to the audit just completed - which agrees with the Appropriations bill. Time to comply would apply as well to regarding auditing installment plans. I think all of the questions are valid and need to be answered. I just hope the resulting changes are not implemented without adequate time to comply with the new interpretations. I am sure you will receive other responses to the questions but my response is directed more at the ability to comply with whatever interpretations are agreed upon.
12. Before the official reporting date students withdraw due to extenuating circumstances. Through an appeals procedure, can an institution refund the student more than what is indicated in the state refund schedule? For example, a student registers for a Fall semester, but the 2nd week of classes (before the 12th class day), the student is involved in a bad car accident and must withdraw from school. Under the circumstances, and with proper documentation, can we refund the student 100% or 80%, rather than the required 70%.

13. This question is regarding CBM-004 and CBM-002 related to Texas Academic Skills Program (TASP) and non-course based remediation which came up during recent state audits. Our understanding has been that a student who needs to be in non-course based remediation can complete remediation anytime during the semester. If a student is TASP affected and completes non-course remediation by the end of the semester, but was not enrolled in non-course based remediation until after the 4th or 12th class day, are we in compliance?



TEXAS HIGHER EDUCATION COORDINATING BOARD

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September 10, 1996

Mr. Mark E. Dan, CPA
Office of the State Auditor
Two Commodore Plaza
206 East Ninth Street, Suite 1900
Austin, TX 78701

Dear Mark:

Your letter of August 20, 1996 posed 13 questions that relate to the Higher Education Formula Funding Variables Audit currently underway. Our responses to these questions are enclosed.

It is my understanding that the Coordinating Board will not be asked to recommend adjustments to appropriations that may be indicated as a result of this project.

Cordially,

A handwritten signature in black ink, appearing to read "K. Ashworth".

Kenneth H. Ashworth

Enclosure

cc: Ms. Lauri Smith Deviney, Legislative Budget Board

Responses to State Auditor's Questions

1. For purposes of reporting, the appropriate interpretation of the phrase "beginning of the semester" is the official reporting date. Students are required to pay at least one-half of their tuition and fees for all of their classes reported to the Coordinating Board by that date. That includes courses added after their initial registration.
2. Universities should require at least one-half payment of tuition AND fees. Although the Appropriation Act does not presently require one-half payment of fees, the Texas Education Code does. We agree that the wording in the Appropriations Act should be changed to make it fully consistent with the Texas Education Code. As stated, however, it is not inconsistent. All legislatively-authorized fees must be collected on a schedule consistent with the Texas Education Code and Coordinating Board rules and procedures, but locally-authorized fees can be collected on any schedule approved by the Board of Regents.
3. Acceptable methods of payment of tuition and fees by the official reporting date are:
 - Payment in full by student
 - Payment by student in compliance with installment plan
 - Confirmed financial aid receivable
 - Valid third-party payor receivable (scholarship)
 - Energy loan under provisions of 56.051

If universities are using other methods of payment they will need to be examined to determine if allowable or appropriate.

4. The guidelines provided to the state's community and junior colleges related to returned checks will also apply to universities. We will publish an appropriate advisory.
5. It is appropriate to provide funding only for legitimate students who expect to participate in the class during the whole semester. Payment of tuition and fees is one indicator that the student will do this. In addition, it is desirable from an academic perspective to determine who will and who will not be in the class as soon as possible in the term. Requiring payment of tuition and fees supports this objective.
6. The Coordinating Board and the Legislature are always open to changes in rules, policies, procedures and statutes that will increase the effectiveness and efficiency of higher education.
7. We believe that it was the intent of the Legislature to require students to pay one-half of their tuition and fees at the time they complete registration.
8. See response to question 6.

9. In practice, ten days has appeared to be sufficient time for institutions to determine the course of action they wish to undertake relative to returned checks. We are open to changing the Coordinating Board policies if a case can be made for a change.
10. See response to question 3.
11. Since the Coordinating Board is not a part of the decision process relative to adjustments that might be made to appropriations as a result of formula variable audits, this comment is more properly addressed to the Legislative Budget Board and the State Auditor's Office.
12. The refund schedule does not allow for extenuating circumstances. Institutions may choose to use non-state funds to provide larger refunds in those rare circumstances in which they may seem to be appropriate.
13. An institution would be out of compliance with TASP rules if it allowed a student who was required to be in remediation to complete registration without registering for a remedial class or being referred to non-course-based remediation (NCBR). It is true that NCBR may be completed any time during the term, but when students enter the term needing remediation, they must register for a remedial courses or be referred to NCBR. Students who test during a term and end up requiring remediation as a result of that testing may be referred to NCBR after the 4th or 12th class day. As long as such students meet all the criteria for NCBR and complete at least 12 hours of remedial instruction, they may be submitted by the institution on the 002 for funding and will be in compliance.

University Management Responses

Southwest Texas State University



Vice President for Finance
and Support Services

October 8, 1996

Mr. Mark Dan
Formula Funding Project Manager
Office of the State Auditor
Two Commodore Plaza
206 E. Ninth Street, Suite 1900
Austin, Texas 78701

Dear Mr. Dan:

President Supple provided me with a copy of the draft report on Formula Funding Variables. The report is very well done and raises issues that need to be addressed to give us all better guidance on enrollment reporting matters.

Thank you for the opportunity to review the report and comment.

Sincerely,

Bill Nance

Bill Nance
Vice President for
Finance and Support Services

BN:js

c: Chancellor Lamar Urbanovsky
President Jerome Supple

Southwest Texas State University

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SWT is a member of the Texas State University System.

**TEXAS A&M UNIVERSITY**

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Office of the President
Ray M. Bowen

8 October 1996

Mr. Mark E. Dan
Formula Funding Project Manager
Office of the State Auditor
Two Commodore Plaza
206 East Ninth Street, Suite 1900
Austin, Texas 78701

Dear Mr. Dan:

Thank you for the opportunity to provide comments and information on the draft copy of the Higher Education Formula Funding Variable Audit Report. Our thanks and appreciation should also be expressed to you and your staff for including the following explanation of the circumstances of our self-reported corrections,

"Although a significant portion of the total self-reported corrections were identified by Texas A&M University, it should be noted that the University significantly improved tuition collection procedures during the Spring 1995 semester. This was the first semester following the release of the previous State Auditor's Office report on higher education formula funding (*An Audit Report on University Formula Funding Reporting*, SAO Report No. 95-027). Appendix 5 reveals Texas A&M University's improvement by the significant decrease in self-reported items subsequent to the report release" (p.8).

Indeed, these audit findings were identified and self-reported by Texas A&M University and occurred because we used a different method than the Texas Higher Education Coordinating Board in reporting tuition collection based on official census day enrollment. For instance, a large portion of the difference was due to a different interpretation of what constituted an unpaid fee. Since that time we have continued to refine our reporting process to the point that if any differences remain, they would be insignificant in number.



The University responded to a draft report. Due to formatting changes, page 8 is now page 5.

Mr. Dan
8 October 1996
Page 2

We urge that one recommendation be reconsidered in light of changes in registration processes at many state institutions; Section 3-A (P.16.) suggests that at least one-half of all tuition and fees must be collected by the official reporting date, including courses added after the initial registration. The official census day payment deadline appears to be an artifact of a non-automated registration process that may no longer provide the value that it once did. It can be shown that it now causes inefficiencies, less than peak use of resources, and also increases costs.

In modern registration processes, students can register by telephone and PC from practically anywhere in the world, right up until the time access to registration systems are turned off. This helps achieve the goal that most universities have of efficient scheduling and utilization of classroom and faculty resources. However, even though the ability to register at the last minute exists, the ability to pay does not. Although instant electronic payment from anywhere in the world will almost certainly arrive in the near future, it is not yet here. It is recommended that for future audit purposes, the requirement be changed to accommodate modern registration systems that are geared towards better customer service and efficient utilization of resources. We recommend the following:

- Permit registrations and hours added to be counted for funding purposes only if completed on or before the official census date.
- For funding purposes, require collection of tuition on or before the last day of the semester.

This would provide the Coordinating Board and others with accurate enrollment statistics, and would be an effective tool for ensuring that institutions register and collect fees from students on a timely basis. Using this approach would help students schedule the classes they require, allow more accurate reporting, and reduce administrative costs. It is, of course, in the best interest of each university to collect tuition and other fees as soon as possible, hopefully before classes begin. This change would merely prevent an arbitrary rule in the reporting process from hampering the implementation of sound management practices and improved customer service.

I believe that it is imperative for it be known that there was absolutely no intent by Texas A&M University to circumvent Coordinating Board rules, nor any attempt to receive more State revenues than formula funding would produce for legitimately enrolled students. If defined in terms of registrations for students who did not attend classes and receive grades, then out of the over 100,000 registrations reported for funding during the period of time covered by this audit, only 133, or .013%, were true exceptions. These few were the result of administrative oversight and miscommunication among students,

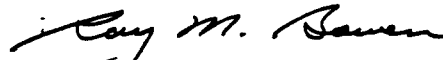
The University responded to a draft report. Due to formatting changes, Section 3-B, page 16 is now Section 3, page 11.

Mr. Dan
8 October 1996
Page 3

faculty and staff. These types of exceptions can be expected to occur in any system that processes large numbers of people. The approximately 950 remaining exceptions that the University self-reported were students who registered, paid tuition and fees, attended classes and received grades; they simply paid their tuition after the official census date. This figure amounts to less than 1% of total registrations. In keeping with our mission, these students were provided educational services, from which the State will benefit when these students complete their education. It is our intent to bring this fact to the attention of both the Legislative Budget Board and the Coordinating Board. We hope that when presented with this information, it will be understood that we were, in fact, not over-funded, and that a reduction based on the results of this audit would be inappropriate and extremely harmful to both the University and the students it serves.

I have received several comments from the offices of the Executive Vice President and Provost, the Vice President for Finance and the Director of Internal Audit concerning the professional and courteous manner in which you and your staff conducted this audit. We look forward to hearing from you further on this matter.

Sincerely,


Ray M. Bowen
President

cc: Dr. Kenneth Ashworth
Mr. John Keel
Dr. Roger Elliott
Dr. Ronald G. Douglas
Mr. William Krumm
Dr. Jerry Gaston
Mr. Charley Clark



A Tradition of Excellence. A Future of Opportunity.
THE UNIVERSITY OF TEXAS AT ARLINGTON

October 9, 1996

Mr. Mark E. Dan
Formula Funding Project Manager
Office of the State Auditor
Two Commodore Plaza
206 East Ninth Street, Suite 1900
Austin, TX 78701

Dear Mr. Dan:

Thank you for providing a draft copy of the Higher Education Formula Funding Variables Audit Report and for the opportunity to make comments in advance of the report's official release.

Having given this matter some careful thought during recent months, and following a quick review of the draft report, it is very clear that there is a lack of consistency in the interpretation of the several applicable statutes as those statutes address the topic of tuition and fee payment deadlines and related issues. It is safe to conclude that institutions have interpreted the same statute(s) differently in many instances, and rapidly increasing tuition and fees during recent years has probably caused the problem to take on added significance as it becomes more difficult for some students to meet established payment deadlines. I believe it is also important to realize that there is reason for confusion regarding the cut-off dates and methods of payment, and there is also a need for clarification, particularly with respect to the installment payment option. Since institutions across the state have adopted a variety of different policies and procedures regarding billing and payment for courses being added, there is a corresponding difference in the interpretation of legislative statutes and the Coordinating Board's guidelines for payment of tuition and fees. Requiring payment of one-half of tuition and fees by the census date for courses being added may be unrealistic and will be very difficult to enforce on the majority of campuses. Many campuses have automated billing and receivables systems which would have to be modified in order to accommodate such requirements. It is important that questions which you raised in your July 18, 1996 memorandum to TASSCUBO, TACRAO, and TACUA representatives are appropriately addressed during the next session of the Texas Legislature to ensure that the rules and procedures of the Coordinating Board are consistent with applicable wording of the Texas Education Code. If tuition and fees are not to be considered equal when installment payments are processed, then it may be appropriate to have this issue clarified by the Texas Legislature next year. It has been somewhat confusing since installment payments began in 1985.

In my opinion, the importance of getting appropriate clarification and understanding of these issues should be assigned a high priority. As in the case of some other areas of institutional operations, achieving and maintaining consistency is extremely important. I believe it is also important to point out that all public universities must find creative, legal ways to help students succeed, including taking appropriate steps toward elimination of barriers to paying the required tuition and fees. Having realistic, clear and consistent guidelines for payment of tuition and fees would be a very positive step.

Thanks again for providing this opportunity to comment.

Sincerely,

Robert E. Witt
President

xc: Dr. James P. Duncan
Provost George C. Wright
Senior Vice President Williams

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(96-97:099)

October 6, 1996

Dr. Mark E. Dan
Formula Funding Project Manager
Office of the State Auditor
P.O. Box 12067
Austin, Texas 78711-2067

Re: Higher Education Formula
Funding Variables Audit Report

Dear Dr. Dan:

Thank you for the opportunity of commenting upon your excellent report of September 26, 1996. I was pleased that the University of Texas-Pan American was given the opportunity to review its student credit hour productivity and to self-report inaccuracies.

The utility of the audits conducted by the Office of the State Auditor are self-evident: they encourage institutions to monitor their internal control mechanisms continuously – and to improve them continuously.

The only cautionary note I might introduce is a reminder that your Office and our Institutions of Higher Education should not become so "internal control" oriented that we lose sight of our primary mission: to help educate the State of Texas' most important resource: its students.

Sincerely,

A handwritten signature in cursive script, appearing to read "Miguel A. Nevarez".

Miguel A. Nevarez
President

c: Dr. James P. Duncan

YP



Vice President for Business Affairs

October 10, 1996

Mr. Mark E. Dan
Formula Funding Project Manager
Office of the State Auditor
Two Commodore Plaza
206 East Ninth Street, Suite 1900
Austin, Texas 78701

Dear Mr. Dan:

Thank you for the opportunity to comment on the draft copy of the Higher Education Formula Funding Variables Audit Report. While we do agree with your sampling methodology, we do not feel that the Audit Report indicates that the Institutions of Higher Education are doing a good job of managing their areas.

In your test for compliance with Texas Academic Skills Program (TASP) requirements, I understand that one error was found in your sampling of 114 TASP students. Therefore, you expanded your sample to an additional 417 records and found no additional errors. The Audit Report appears to imply that UTPB has not properly managed the TASP requirements and is trying to get more than their appropriate amount of State Appropriations generated by semester credit hours.

We want to make certain that the readers of the Audit Report do not get the feeling that we are mismanaging the TASP requirements.

Sincerely,

Joe A. Powell
Interim Vice President
for Business Affairs

JAP:cc

c Dr. Charles A. Sorber
Dr. James P. Duncan
Mr. R. Dan Burck

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The University of Texas ★ San Antonio
Office of the President

October 11, 1996

Mr. Mark E. Dan
Formula Funding Project Manager
Office of the State Auditor
Two Commodore Plaza
206 East Ninth Street, Suite 1900
Austin, Texas 78701

Dear Mr. Dan:

Thank you for providing an opportunity to review the draft copy of the Higher Education Formula Funding Variables Audit Report. Although findings were not mentioned for UTSA, I would like to offer the following comments on the report:

- The recommendations on page 8 of the report indicate all institutions will be given the opportunity to identify and disclose corrections prior to the beginning of the formula funding audit. It would be beneficial to also mention what steps the institution will take to prevent errors from being repeated. In the examples shown of individual institutions, this technique is used, but not as a general rule.
- In at least two places, the report mentions only three possible conditions for compliance with TASP requirements which institutions must show:
 1. documentation must establish that students have passed all parts of the test;
 2. that students were exempt from the test; or
 3. that students were enrolled in remediation.

However, the TASP Policy Manual states that for "...institutions using a local placement/assessment instrument, students failing all or part of that instrument **may or may not be required to remediate** at the discretion of the institution" (p. 51). This TASP ruling is supported by the TASP Manual's Nine Semester Hour Rule, which states that all entering and transfer students must take the TASP Test prior to the end of the semester in which they accumulate nine hours. If they do not take the test, they are still permitted to retake classes, audit courses, or enroll in non-credit developmental courses. Students in these categories are reported as "TASP not taken-delayed." The conditions listed above should include this delayed category which the Coordinating Board recognizes on its report, and the TASP Manual describes as an **option**.

6900 North Loop 1604 West • San Antonio, Texas 78249-0601 • (210) 691-4101

The University responded to a draft report. Due to formatting changes, the material referenced is on page 6 instead of page 8.

October 11, 1996

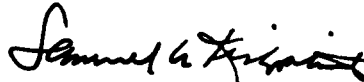
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- A second inconsistency, related to the first one, is one dictating that students reported on the CBM002 who do not fall into one of the three categories above would not have their semester credit hours eligible for formula funding. As stated above, other categories of students would exist, as described by the CBM002 report. The reporting manual describes a student who failed TASP but did not take remediation, and passes the test on a retest. According to the manual, he did not take remediation because it was not practical. This student would not have been eligible on the reporting day for funding, but would have on the TASP Report. Also, those not taking TASP, but taking the local placement test and passing it, cannot be assumed to need remediation.

In order for this guideline of funding to be enforced, the CBM004 (funding) would have to be compared with the CBM002 (TASP) which is not produced until February after the Fall Semester. Since this stipulation on page 13 concerning the retraction of funding hours is not published in the reporting manual, then most institutions will have to reproduce their reports from years before.

Thank you again for providing an opportunity to review the report prior to its release.

Sincerely,



Samuel A. Kirkpatrick
President

SAK/bah