



OFFICE OF THE STATE AUDITOR

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

LAWRENCE F. ALWIN,
State Auditor

February 18, 1998

Members of the Legislative Audit Committee:

The University of Texas at El Paso (University) has satisfactorily addressed only one of the three audit issues raised in our *Management Control Audit of the University of Texas at El Paso* (SAO Report No. 95-038, January 1995). Limited progress has been made by the University in its plans to achieve financial stability in athletics and to plan for and measure progress in the remedial math programs. However, the University has made significant progress in implementing our recommendations for planning, purchasing, and security in Information Resources.

During our audit follow-up, we made additional recommendations management should consider to fully resolve the audit issues addressed in our 1995 management control audit: (1) implement policies and procedures to ensure review of computer-related expenditures, and (2) determine future costs/potential revenues of each proposed strategy in the University's strategic plan before finalizing its financial plan for athletics. Our original recommendation to develop specific short- and long-term plans, goals, and objectives for developmental math, including ways to measure progress, remains the same.

The attached report summarizes the current status of our previous recommendations and management's responses. Management generally concurs with our recommendations, and will report future progress in implementing these recommendations by August 31, 1998, under the new reporting requirements for all agencies concerning prior audit recommendations (Government Code, Section 321.014).

Our audit objective was to determine what actions management of the University has taken to address the issues and recommendations from the previous report. The scope of the audit was limited to following up on the issues and recommendations included in the report.

Fieldwork was conducted from November 3 through 26, 1997. The audit was performed in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

We thank the University for its assistance and cooperation. If you have any questions, please call Carol Smith at 479-4732.

Sincerely,

A handwritten signature in cursive script, reading "Lawrence F. Alwin".

Lawrence F. Alwin, CPA
State Auditor

rmn/khm

attachment

SAO Report No. 98-023

Section 1:

Information Systems Lack Certain Planning, Purchasing, and Security Controls

Previous Recommendation:

Reevaluate Information Resources Priorities

Reevaluate Information Resources priorities (including the student information system) 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 to Previous Recommendation:

- *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.*

Follow-Up Audit Result:

A Clear Process Is In Place

Status: Implemented

There is a clear process in place to evaluate and track Information Resources priorities. The majority of high priority projects are either implemented or significantly in progress.

Management's Response to Previous Recommendation:

- *The student information system must be continuously upgraded to keep pace with growing enrollment and data reporting requirements. We will save an estimated \$2 million by upgrading our current system rather than purchasing a new one. We will continue our efforts to seek external grant funds and other creative strategies to finance the \$2.5 million cost of upgrading the UTEP's student information system.*

Follow-Up Audit Result:

A New Student Information System Has Been Purchased

The University has purchased Banner 2000, a new student information system.

Status: Significant Progress

Implementation for Admissions, Financial Aid, Registrar, and Student Accounts

Receivable is planned for early 1999. This system has transcript-review and degree-audit capabilities.

Management's Response to Follow-Up Audit Result:

We concur that significant strides have been made in implementing information technology priorities at UTEP.

Previous Recommendation:

Organize an Automation Steering Committee

Organize an automation steering committee, with a statement of purpose outlining immediate needs and planning for future information resources needs.

Management's Response to Previous Recommendation:

The newly appointed Associate Vice President for Information Technology will activate the committee as part of a reorganization plan for the Information and Telecommunications Department.

Follow-Up Audit Result:

An Automation Steering Committee Has Been Organized

An automation steering committee has been organized and was instrumental in formulating the Information Resources strategic plan for the University. The

Status: Implemented

committee is functioning according to its statement of purpose, and its goals and progress are discussed with the Vice Presidents for Academic Affairs, Student Affairs, and Finance and Administration.

Management's Response to Follow-Up Audit Result:

The committee is functioning very effectively. The chair of the committee is the Associate Vice President for Instructional Technology with assistance from the Associate Vice President for Technology Planning and Development.

Previous Recommendation:

Ensure Computer-Related Purchases Are Monitored for Cost-Effectiveness

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 to Previous Recommendation:

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.

Follow-Up Audit Result:

A Technology Corner Was Established

A Technology Corner was established in April 1996 as a centralized coordinator for hardware and software purchases, to which all computer-related purchases over \$1,000 are directed for review. While significant volume-purchase discounts have been reported by the Technology Corner, our testing indicated that a majority of purchases lacked evidence of review by the Technology Corner.

Status: Significant Progress

Follow-Up Audit Recommendation:

The University proposes to develop policies and procedure to ensure that computer-related purchases over \$1,000 are properly approved and to have the internal auditor periodically audit the procedures to ensure compliance. We recommend that the University's proposal be implemented.

Management's Response to Follow-Up Audit Recommendation:

Policies and procedures will be developed by April 30, 1998 to ensure that all technology purchases over \$1,000 are properly approved either by the Technology Corner for new computer and software purchases, or by the technical experts within the Information Technology Services and Network and Telecommunications. These policies and procedures will be developed in consultation with the Information Technology Steering Committee as well as the Office of Internal Audit. Once they are implemented, the Office of Internal Audit will conduct periodic audits to ensure compliance with these policies and procedures.

Previous Recommendation:

Revoke Unnecessary Access to Student Records

Revoke all unnecessary employee access to student records and periodically monitor access of current and former employees.

Management's Response to Previous Recommendation:

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 Control Officer in the Information and Telecommunications Department, and a technology security committee, with broad-based representation from across the campus, has been constituted.

Follow-Up Audit Result:

Unauthorized Access Has Been Revoked

Unauthorized access to student records has been revoked, and access of current and former employees is monitored.

Status: Implemented

Management's Response to Follow-Up Audit Result:

The office of Internal Audit will continue to review compliance with these procedures.

Section 2:

Financial Instability of Athletics Diminishes University Resources

Previous Recommendation:

Update the Strategic Plan for Athletics

Update the strategic plan for athletics. The strategic plan should have specific goals and strategies with target dates for completion.

Management's Response to Previous Recommendation:

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 and is being reviewed as a part of the UTEP'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.

Follow-Up Audit Result:

Strategic Plan for Athletics Will Be Finalized in January 1998

According to management, the strategic plan for athletics currently in progress will be finalized by the end of January 1998.

Status: Limited Progress

Management's Response to Follow-Up Audit Result:

The UTEP Intercollegiate Athletics Department has actually prepared two strategic planning documents during the past two years. The first, which was completed in November 1995, was developed within the context of NCAA Certification. It involved the preparation of an extensive Self-Study Report that was reviewed by an NCAA-appointed peer review committee. The Self-Study process was comprehensive and included the participation of the Western Athletic Conference and other outside agencies. The Self-Study Report itself contained numerous recommendations in the areas of governance (e.g., the creation of a Student Athlete Advisory Committee), student academic support (e.g., enhanced academic advising), and, of primary importance within the context of this audit, improved monitoring and strengthening of financial controls.

Using the NCAA Certification Self-Study as a base, a second Strategic Plan was completed in December 1997, and comprehensively reviewed at a

strategic planning retreat on January 8, 1998. Participants in that retreat included the University President, Vice President for Finance and Administration, Director of Intercollegiate Athletics, Associate Athletic Director and Senior Woman Administrator, Assistant Athletic Director and Business Manager, Assistant Athletic Director and Compliance Coordinator, Executive Director of the Miner Foundation, and the Assistant to the University President. The Strategic Plan includes the specification of goals, strategies to achieve them, and projected timelines for their achievement, in such areas as graduation rates, gender equity, and revenue generation. The strategic plan has been completed.

Previous Recommendation:

Develop a Long-Term Financial Plan

Develop a long-term financial plan, including annual operating budgets, based on realistic expectations of revenues.

Management's Response to Previous Recommendation:

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 will 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.

Follow-Up Audit Result:

A Long-Term Financial Plan Will Be Finalized in January 1998

According to management, a long-term financial plan currently in progress will be finalized by the end of January 1998.

Status: Limited Progress

A one-time fund raising effort in fiscal year 1995 resulted in revenues exceeding expenditures by \$31,287, after applying student service fees. In fiscal years 1996 and 1997, however, expenditures exceeded revenues by \$536,102 and \$475,749,¹ respectively, after applying student service fees.

¹ Athletic revenues and expenditures for 1995 and 1996 have been audited by The University of Texas System Audit Office; 1997 revenues and expenditures are unaudited and were taken from the University's Annual Finance Report.

Intercollegiate Athletics has eliminated transfers from other fund groups to cover its operating losses. Instead, it relies more heavily on student service fees and transfer of funds from other auxiliary accounts. The percentage of student services fees allocated to athletics has increased from 25 percent of allocated fees in fiscal year 1995 to 41 percent of allocated fees in fiscal year 1997.

This greater reliance on student service fees and other auxiliary accounts may not be sustainable. Student services fee revenues are dependent upon fee amount and student enrollment. Student fees are currently at the statutory maximum of \$150 per semester and there has been a three-year decline in enrollment. If the University should maintain the current rate of allocations in student services fees, the fund balance would be depleted by fiscal year 1999. Additionally, the overall fund balance for Auxiliary Funds has decreased from \$1.8 million in fiscal year 1995 to \$830,000 in fiscal year 1997, due to an overall decrease in auxiliary revenues. The decrease in auxiliary revenues is due in part to the drop in enrollment.

In addition, part of the allocation of student services fees to athletics was not done according to established procedure. In fiscal years 1995 and 1997, respectively, 32 percent and 28 percent of student services fees allocated to athletics were in excess of what athletics had originally asked for according to its budget and what the Student Services Fee Allocation Committee (Committee) had recommended. Because the Committee meets only once a year to allocate fees, the additional fee allocation to athletics was not approved by the Committee. Committee approval is a procedure established to help maintain budgetary control over the cost of student services and to give students a voice in how their fees are spent.

Follow-Up Audit Recommendation:

Because a primary goal of the University's financial plan in athletics is to achieve financial stability, we recommend that the University determine the future costs/potential revenues of each proposed strategy before finalizing its plan. Placing a dollar value on each strategy will facilitate the most appropriate combination of strategies and help establish a realistic timeframe for achieving the University's goals. At the same time, the University should establish a time frame beyond which, if it does not have sufficient revenues to sustain their current (or future) level of expenditures, the University must consider downsizing the department to stay within actual revenues.

We further recommend that the University's financial plan be validated by the internal auditor and reported to the State Auditor's Office by August 31, 1998, as part of the standard report due by all state agencies concerning the status of prior audit recommendations (Government Code, Section 321.014).

Management's Response to Follow-Up Audit Recommendation:

Intensive work is underway to finalize a long-term financial plan for the Intercollegiate Athletics Program. Drafts of this plan have been reviewed and discussed in a series of meetings which have included the University President, the Vice President for Finance and Administration, the Director of Intercollegiate Athletics, the Assistant Athletic Director and Business Manager, the Executive Director of the Miner Foundation, the Marketing Coordinator, and the Assistant to the University President. It is anticipated that the plan will be completed within the next several weeks, once consultations with the Director of Development, members of the Miner Foundation, and other supporters of the program have occurred. The recommendations of the State Auditor's Office for this financial plan have helped guide its development, and every effort is being made to ensure that this plan complements the Strategic Plan. Provisions will be made to involve UTEP's Office of Internal Audit in monitoring the plan's implementation and making recommendations for mid-course corrections, where necessary.

Although the comprehensive financial plan is not yet complete, a number of observations should be made here for the record:

First, the UTEP Intercollegiate Athletic program has for the past three years maintained a fund balance without dependence on support from other funding sources, e.g., designated funds or general fees. Like other Texas institutions with intercollegiate athletics programs, however, UTEP's program does rely on Student Services Fees and on support from Auxiliary Fund Enterprises, which are self-supporting operations. In the case of student fees, it should be noted that students are provided free admission to intercollegiate athletics events, thereby offsetting a considerable portion of the fee revenue. The U.T. System Board of Regents has been informed that auxiliary administration revenues and new revenues from special events, which are not dedicated or reserved for any other purpose, will continue to be used to finance UTEP's athletics program.

Second, there is at UTEP a high degree of awareness of the importance of carefully evaluating any dependence on Auxiliary Fund balances. Although these balances dropped in FY 1997, largely as a consequence of a decline in enrollment, they are being restored in FY 1998 as new revenue had been generated. For FY 1998, Auxiliary Enterprise budgets for all operations have been carefully prepared using highly conservative projections of revenue that will enhance the financial condition of the fund. Projected revenues include an increase in the Union Fee, approved by students in a referendum, which will directly offset increases in costs of Union building operations, where fund balances have been depleted. (The last Union Fee increase occurred in 1989.) Finally, it should be pointed out that unallocated Student Service Fee balances, which are used primarily as an emergency reserve, only decreased

by \$44,850 between FY 1996 and FY 1997, and a good reserve balance for other contingencies remained as of August 31, 1997.

Third, allocation recommendations of the Student Service Fee Committee, which has a student-majority membership, are with few exceptions approved after review by the University President. The committee is advisory, however, and the President may on rare occasions adjust allocations to respond to special institutional needs, as occurred in this instance. Because the Committee meets only during the spring semester, and because its student membership is subject to annual rotation, "off-cycle" changes cannot easily be referred back to the committee until the next cycle begins. In this particular case, the "off-cycle" changes that were recommended to the President by the Vice President for Finance and Administration, with the concurrence of the Vice President for Student Affairs, were reviewed in detail with the next cycle's Student Service Fee Committee. It is important to note that this latter Committee subsequently recommended another increase in the allocation to Intercollegiate Athletics, thereby underscoring their support for increased funding for the athletics program.

All this having been said, UTEP recognizes that a long-term solution to the financial viability of the athletics program is absolutely critical, and that more aggressive fund-raising and marketing are the most promising strategies to increase revenues. Considerable planning activity has occurred in these areas and has resulted in a recently completed Marketing Plan and Miner Foundation Plan.

As previously noted, the University President has had a series of meetings to review drafts of the financial plan. The financial plan, which will conform to the State Auditor's recommendations, will be completed well before the August 31, 1998 deadline. It will be reported to the State Auditor's Office as part of the standard report due by all state agencies concerning the status of prior audit recommendations (Section 321.014, Government Code).

Previous Recommendation:

Develop and Use Priorities for Reducing Athletic Expenditures

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 to Previous Recommendation:

Such reductions in athletic expenditures have already occurred, and additional cost savings will continue to be sought. Further expenditure reductions, however, will impede the implementation of gender equity measures and likely jeopardize the

program's continued participation in the WAC and the NCAA Division IA; instead revenues must be increased through more aggressive marketing and more creative fund-raising.

Follow-Up Audit Result:

There is No Overall Plan to Reduce Athletic Expenditures

There is no overall plan to reduce athletic expenditures. Actual expenditures have been within 1 to 2 percent of budgeted expenditures for fiscal years 1995 through 1997, but expenditures have increased by 7.6 percent, whereas revenues have only increased 1.2 percent.²

Status: Limited Progress

Intercollegiate Athletics is currently considering a proposal to eliminate two non-revenue producing sports at a potential savings of \$274,000 over two years. In year three however, athletics may incur additional costs if a sport is added to attain gender equity.

Management's Response to Follow-Up Audit Result:

Contingency plans have been prepared to address possible revenue shortfalls, including expenditures reduction measures.

Previous Recommendation:

Develop a Comprehensive Marketing Plan

Develop a comprehensive marketing plan with long-term specific goals for fund-raising and strategies to accomplish those goals.

Management's Response to Previous Recommendation:

Marketing and fund-raising planning is well underway. The Development Office has already raised over \$500,000, and 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.

² The percentages were calculated using data from unaudited financial statements for the University.

Follow-Up Audit Result:

A Comprehensive Marketing Plan Will Be Finalized January 1998

According to management, a comprehensive marketing plan currently in progress will be finalized by the end of January 1998.

Status: Limited Progress

Management's Response to Follow-Up Audit Result:

A marketing plan has been completed.

Previous Recommendation:

Obtain Board of Regents' Approval for All Transfers Exceeding Budgeted Amounts

Obtain Board of Regents' approval for all transfers exceeding budgeted amount 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, the budget transfers should be initiated during the year to obtain preliminary board approval.

Management's Response to Previous Recommendation:

The requirements to which the recommendation refers have been eliminated; Board approval is no longer required for such transfers. We agree that the UT System Board of Regents must be appropriately informed of the financial conditions of UTEP's Intercollegiate Athletics program, and budget transfers will be made as appropriate.

Follow-Up Audit Result:

Board Approval Is No Longer Required

Board approval for transfer of funds is no longer required.

Status: No Longer Applicable

Section 3:

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

Previous Recommendation:

Develop Specific Plans, Goals, and Objectives for Developmental Math

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 to Previous Recommendation:

Assessment of student needs and programmatic response to those needs have been the subject of ongoing review and planning.

Follow-Up Audit Result:

A Remediation Task Force Was Established

The University established a Remediation Task Force that was charged with developing a comprehensive plan to address developmental and remedial education issues.

Status: Limited Progress

The Task Force issued a report in September 1997 that recommended a reorganization of program structure, but it did not address the larger issues of mission and goals, external mandates, internal policies, evaluation mechanisms, and resource allocations as originally intended. According to management, the University is planning to develop and implement short-term and long-term plans by the fall of 1998.

The University reduced the class size for the more advanced remedial math class in the Spring semester of fiscal year 1997. However, there was no cost-benefit analysis done to document or justify the change in policy.

Management's Response to Follow-Up Audit Result:

Developmental Math Education is part of a comprehensive restructuring of all developmental education activities that has been initiated at UTEP, based upon recommendations contained in the 1997 Remediation Task Force report. This restructuring is itself part of a larger plan to create a single entity within

the university that will have responsibility for all entering students, whether they require academic development support or not. Drawing on the expertise of faculty and staff in both Academic and Student Affairs, a set of immediate, short-term, and long-term goals has been identified. Beginning in the fall 1998 semester, entering students in the Colleges of Engineering and Science will be the first to participate in this new program, thanks to funding support from the National Science Foundation.

In addition to creating the new Entering Students program by the fall 1998 semester, other immediate goals include successfully responding to significant changes in the rules and regulations governing the TASP test, which converted it from a "rising junior" test to an entrance requirement. Like other universities in Texas that serve large urban student populations, UTEP will have to spend considerable staff time between now and the beginning of the fall 1998 semester to: communicate information to secondary school students about the new TASP requirements; administer the TASP to large numbers of entering students; develop alternative tests and placement test options; and revise developmental course offerings, including developmental math.

Short-term goals for this new approach to provide stronger academic support to all entering students will be achieved by fall 2000, to include: increase the TASP re-take success rate by 10%; increase the pass rate in course-based remediation by 10%; and establish a formative evaluation system to monitor the progress of this entering student program. Strategies to achieve these immediate and short-term goals have been identified, as have possible barriers to implementation.

The primary long-term goal, which we intend to achieve by 2003, is to increase significantly the overall student retention rate at UTEP. The implementation of the University's more rigorous admission requirements will have phased in by that time, and the combination of these strategies is expected to greatly reduce the need for developmental education and greatly increase the success of entering students.

The University is reviewing a variety of strategies to provide developmental math education, including the implementation of cooperative learning techniques and a reduction in class size. Student performance data are being analyzed, but it is premature to conclude that any single strategy, e.g., reduction in class size, can achieve an appreciable difference. Where cooperative learning and reduced class size have been combined, there appears to be an improvement in student performance, i.e., a 15% improvement in the pass rate, but these students' performance on TASP and in subsequent courses will also have to be assessed before conclusions can be safely drawn. With respect to cost-benefit determinations, any major increase in student success in developmental math courses, and in subsequent math courses, will obviously result in increases in student retention and enrollment.

Enrollment increases lead to increased formula and tuition revenues, which, in turn, could be used to cover the increased costs associated with the strategies (e.g., cooperative learning) with which we have been working.

Previous Recommendation:

Alternatively, Consider Modifying Admission Standards

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

Management's Response to Previous Recommendation:

Through joint planning with area school districts over the past three years, UTEP has adopted new admissions criteria which will be phased in during the next ten years to coincide with more demanding high school graduate requirements and with the capacity-building being undertaken by all area schools under the auspices of the El Paso Collaborative for Academic Excellence (UTEP, El Paso Community College, chamber of commerce, and other community organizations).

Follow-Up Audit Result:

New and Stronger Admissions Criteria Were Adopted

In November 1994, the University adopted new and stronger admissions criteria for students who have graduated from U.S. high schools within the last five years, for provisional admissions, and for students with previous college or university work. The criteria are to be phased in through 2004.

Status: Implemented