



OFFICE OF THE STATE AUDITOR

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LAWRENCE F. ALWIN, CPA
State Auditor

August 31, 1998

Re: Results of Community College and
Higher Education Database Projects

Members of the Legislative Audit Committee:

The State Auditor's Office's financial analysis identified nine community colleges and three state universities with potential issues of significant financial risk:

Community Colleges

- Temple College
- Southwest Texas Junior College
- Kilgore College
- Frank Phillips College
- Paris Junior College
- Austin Community College
- Panola College
- Tarrant County Junior College District
- Northeast Texas Community College

Universities

- University of Houston
- The University of Texas at El Paso
- Stephen F. Austin State University

The most common risk identified is the potential for "overspending." Some institutions may not have resources readily available to cover expenses. Another common risk is the reduction or elimination of reserves (savings) available for future needs. The attached Summary of Results provides more detail on potential issues.

The results of our analysis serve as an early warning system. We communicate the results to the institutions. The issues identified may not indicate actual problems. However, institutions should review these issues and take necessary actions to correct any problems.

You may wish to use our primary analysis tools, the Higher Education Database and Community College Database software, for your own analysis. The software is available to institutions and state oversight officials. It includes financial and demographic data through fiscal year 1997.

If you have any questions or would like to schedule a software demonstration, please feel free to contact Tony Rose (Higher Education Database) or Mike Apperley (Community College Database) at 479-4700.

Sincerely,

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

Lawrence F. Alwin, CPA
State Auditor

cbg/attachment

General Conclusions

The State Auditor's Office uses the results of this analysis as a risk assessment tool in choosing audits to perform. We may propose limited audits during fiscal year 1999 at some of the nine community colleges identified. The nine colleges received \$101 million of the \$660 million in state funds appropriated to community colleges for fiscal year 1998. Such audits would determine if significant financial or management problems actually exist at these colleges. These audits would incorporate audit work already performed by the colleges' internal and external auditors.

The State Auditor's Office recommends that the Legislature consider including community colleges in the Texas Internal Auditing Act (Act). Effective internal audit programs could help the colleges identify and correct financial and operational problems on an ongoing basis. If included in the current Act, 90 percent of all community colleges would be required to have an internal auditing program. The table below shows the impact of including the community colleges in the Act:

	Community Colleges With Existing Internal Audit Programs	Required Internal Audit Programs if Community Colleges Are Included in Act
Nine community colleges listed	3 (33%)	8 (89%)
All 50 community colleges	19 (38%)	45 (90%)

The State Auditor's Office will publish an audit guide for community colleges and their governing boards in the fall of 1998. The guide will explain the financial reporting and management responsibilities of the governing board, the college, and the college's external auditor. It will also outline the process for contracting with external auditors for annual financial opinion audits.

Summary of Results

We identified potential issues of significant financial risk at 9 of the 50 public community colleges. The types of warning signs we found at community colleges include the following:

- Operating Deficits – At least one fund's expenses exceeded its revenues. This means the fund was not self-sufficient, and reserves or other sources were used to cover expenses. Fifty percent of the colleges reported operating deficits in fiscal year 1997.
- Deficit Fund Balance – At least one fund's liabilities exceeded its assets. This means the fund does not have the reserves to cover any future operating deficits. Sixteen percent of the colleges reported deficit fund balances at August 31, 1997.
- Reporting Issues – The community college's audited annual financial report was not prepared in compliance with the Higher Education Coordinating Board's

Annual Financial Reporting Requirements for Texas Public Community Colleges. While these issues may not directly affect the institution's financial condition, internal and external users may make inappropriate decisions based upon inaccurate information. We found reporting errors in 32 percent of the colleges' annual financial reports.

Warning signs at state universities include the first two indicators described above. In addition, we note consistently increasing use of student fees to cover athletic program expenditures. These are not new issues, and we will continue to monitor these institutions to determine whether additional work is needed.

What We Did

Our financial analysis was based on the Higher Education Database and Community College Database, as well as manual review of the institutions' annual financial reports. In addition we performed trend analyses.

This financial analysis allows the State Auditor's Office to detect potential problems with financial accountability in universities and community colleges without dedicating hours to routine audits at each institution. The related Higher Education Database and Community College Database software facilitates the analysis of financial and demographic information for all 114 state-supported institutions of higher education. For fiscal year 1998, this analysis cost approximately \$2,300 per institution.