



Lawrence F. Alwin, CPA
State Auditor

March 18, 2002

Members of the Legislative Audit Committee:

The Legislature and other oversight bodies can rely on the University of North Texas's (University) financial information. The financial system is the primary source of information for all financial reports. The University's financial system and financial processes are designed to ensure that information is recorded accurately and consistently. In addition, the University is spending state appropriations and local funds in accordance with limitations set forth in the General Appropriations Act and other applicable state laws and regulations. We can only provide limited assurance on the alignment between expenditures and performance outcomes because the University's expenditures and outcomes correlate with its appropriations for Educational and General State Support, not with specific strategies. The University has plans for improving the outcomes that it is not meeting. The University received \$117.6 million in state appropriations for fiscal year 2001.

Our assurances are based on our review and testing of the structure of the University's financial system and financial processes in place as of December 2001. At the time of our review, the University was in the process of acquiring a new administrative information system. The University expects that the new system will manage services such as student registration, financial accounting, and human resources/payroll more efficiently than the current system. According to the University, the system will be implemented in phases during the next five years. The financial/purchasing and human resources/payroll components are tentatively scheduled to become functional in September 2003 and January 2004, respectively.

This financial review was an extension of work we conducted during fiscal year 2001 at the request of the Senate Finance Committee and the House Appropriations Committee. We reviewed the University's financial system and tested selected financial transactions that occurred between September 1, 1997, and August 31, 2001. The attachment to this letter contains additional detail on the results of our work.

We appreciate the University's cooperation and responsiveness during this project. The University agrees with our observations, and its responses are included in the attachment. If you have any questions, please contact Susan Riley, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

khm/Attachment

cc: University of North Texas Board of Regents
Chair and Members of the Board
University of North Texas
Dr. Norval F. Pohl, President

Objectives, Scope, and Methodology

The project objectives were to:

- Determine if the University's reporting processes enable it to provide legislative budget committees and University management with accurate and consistent financial information.
- Determine if the University is using state appropriations and local funds in accordance with applicable state laws and regulations.
- Determine the relationship between funds expended and outcomes.

To achieve these objectives, we gained an understanding of controls over financial information and tested the controls and the accuracy of the financial information by reviewing financial reports, expenditures of state appropriations and local funds, revenues, transfers, lapses, and fund balances. We also examined the relationship between expenditures, key strategies, and the expected outcomes for the strategies. We conducted fieldwork between October and December 2001 and tested transactions that occurred from September 1, 1997 through August 31, 2001.

This audit was conducted in accordance with generally accepted government auditing standards.

SAO Report No. 02-028

Do the University's reporting processes enable it to provide legislative budget committees and University management with accurate and consistent financial information?

The University of North Texas (University) is providing accurate and consistent financial information to the Legislature, the University's Board of Regents, and University management. We noted several aspects of the University's financial operations that underscore this conclusion.

The University's financial processes and systems are designed to ensure that information is recorded accurately and consistently.

The University's General Ledger Accounting System (GLAS) is the primary source of reported financial information. The University maintains policies and procedures to ensure the integrity and security of information in this system. The University prepares financial reports using a combination of manual and automated techniques that use information from GLAS, GLAS subsystems, and monthly statements from external sources. The University reviews and reconciles information during the reporting process to ensure the accuracy of financial reports. Controls over the financial system and the reporting process are adequate to ensure the accuracy and reliability of financial reports provided to the Legislature and University management.

On average, for the period from 1998 through 2000, approximately 45 percent of the University's revenue came from state appropriations; the remaining 55 percent came from local fund sources such as tuition, fees, investment income, sales, and services. A review of the University's expenditures (excluding expenditures for salaries and benefits) for 2000 and 2001 showed that, of these expenditures, the University paid an average of \$32.4 million (27 percent) using state appropriations and an average of \$89.5 million (73 percent) using local funds. It is important to note that the University's legislative appropriations requests (LAR) contain information relevant to state appropriations only; its annual financial reports (AFR), operating budget, Uniform Statewide Accounting System (USAS) data, and GLAS data contain information relevant to both state appropriations and local funds.

Information in the University's financial system is consistent with information in its LAR.

Actual revenue for 1998, 1999, and 2000 did not exceed LAR revenue estimates. This shows that the University is not withholding funding sources or fund information from the Legislature. Comparison of LAR expenditure estimates to actual expenditures for 2000 showed that total expenditure estimates exceeded total actual expenditures by 0.62 percent. Therefore, the University is reporting reasonable expenditure estimates in its LAR.

We successfully traced a sample of revenues, expenditures, transfer amounts, and fund balances from the University's 2002-2003 LAR to its 1999 AFR and other

source documentation. This indicated that the University correctly reported these amounts in its LAR.

Financial information in the University's operating budget is consistent with its AFRs and USAS data.

We reviewed the University's AFRs for 1998 through 2000 to identify any revenues or expenditures not reported in its operating budget or in USAS for those years. Information was consistent among the AFRs, the operating budget, and USAS data.

Fluctuations in financial data were reasonably explained.

Although the University experienced significant fund balance and revenue fluctuations between 1998 and 2001, each fluctuation was reasonably explained and verified with supporting information. Revenue fluctuated because of changes in:

- Semester credit hours.
- Tuition rates.
- Interest earned on investments.
- Taxes collected and remitted to the Comptroller of Public Accounts.
- Pass-through revenue for state grants.

Fund balances fluctuated because of changes in:

- Reserves for renovations and equipment purchases.
- Grant awards.
- Fees received as a result of enrollment growth and fee increases.

The University conducts reconciliations to ensure that information in its AFR is consistent with information in USAS.

The University reconciles the General Revenue Fund and local funds in its AFR to USAS on an annual basis. We gained an understanding of the reconciliation process and reasons for inconsistencies between information in the University's AFR and USAS. We also verified that the University performed reconciliations for fiscal years 2000 and 2001.

Is the University using state appropriations and local funds in accordance with applicable laws and regulations?

The University is using state appropriations and local funds in accordance with applicable laws and regulations. Several facets of the University's budget and expenditure process support this assessment.

University expenditures are reasonable and appropriate.

A review of University AFRs for 1998 through 2000 showed that the University is spending approximately half of its current funds for faculty and staff salaries and benefits. For example, the University's \$124.8 million in current funds expenditures for salaries and wages in 2000 represented 50 percent of the \$249.6 million in total current funds expenditures that year. We tested a targeted sample of \$24.8 million in University expenditures of state appropriations and local funds (excluding those for salaries and benefits) to determine whether expenditures were:

- Made in accordance with the University's strategies and objectives.
- Paid to the appropriate vendors.
- Reasonable in amount, based on the type of transaction.
- Charged to the appropriate object code.
- Properly approved.
- Supported by adequate documentation.
- Entered into USAS in a timely manner.
- Correctly entered into USAS and the University's accounting system.
- In compliance with appropriation spending restrictions.

Testing showed that the University is spending state appropriations and local funds for appropriate goods and services in accordance with applicable state laws and regulations.

Expenditures for 1998 through 2001 were within limitations established by appropriation restrictions. The University did not reimburse board members from state appropriations in any of the four years we reviewed. Therefore, the University did not exceed the allowable limit of \$53,000 for annual board expenses. In addition, the University spent less than one-third of its appropriations in the fourth quarter of each year reviewed.

Several significant expenditure fluctuations occurred between 1998 and 2001. Each fluctuation was reasonably explained and supported.

The University develops and adheres to reasonable budgets.

The University bases its operating budget on historical data, management's assumptions, and departmental funding requests. Both University management and the University's board approve the operating budget. Controls in the University's financial system allow payment of vouchers only when sufficient funds are available, which helps to ensure adherence to the budget. University management monitors the status of the budget by reviewing individual departmental budgets every six months.

Financial information in the University's operating budget is consistent with its LAR and the General Appropriations Act.

Comparison of information in the University's operating budgets for 1998 through 2001 to its LAR and the General Appropriations Act for those years showed that information is consistent among these three documents. This indicates that the University is properly including appropriated funds in its operating budget and its LAR.

Encumbrances are reasonable and are paid within a reasonable amount of time.

The University reviews encumbrances (financial obligations for which funds are reserved) at the end of each month. It reviews encumbrance journals and encumbrance detail from the general ledger to ensure that all transactions have posted to both reports. We reviewed \$17.9 million (65 percent) of year-end encumbrances for 2000 and \$7.6 million (46 percent) of year-end encumbrances for 2001. Our review of encumbrance reports and financial data for 2000 and 2001 indicated that the University properly clears encumbrances and maintains appropriate documentation to support encumbrances and corresponding payments.

The University makes appropriate transfers of state appropriations and unexpended balances.

The University made one net transfer out of an appropriation item during the period from 1998 to 2001. This transfer was below the limit of 25 percent of the appropriation set forth in the General Appropriations Act. The University had an unexpended balance of \$69,127 on August 31, 2000, for the University of North Texas System Center at Dallas. The University had unexpended balance authority from 2000 to 2001 and properly handled the unexpended balance. The University did not have unexpended balance authority for 1998, 1999, and 2001 and, therefore, it made no unexpended balance transfers during those three years.

The University does not lapse appropriations.

A review of the University's financial data and supporting documentation for 1998 through 2000 showed that the University did not lapse appropriated funds in any of those years.

Is there alignment between funds expended and outcomes?

It is difficult to determine the relationship between expenditures and outcomes. We are giving limited assurance on the alignment between expenditures and specific strategies because the University's expenditures and outcomes do not correlate with specific strategies. Instead, the University's expenditures and outcomes correlate with its state appropriations for Educational and General State Support. We noted that the University is spending funds appropriated for Educational and General State Support in accordance with applicable state laws and regulations. In addition, the University is not significantly overspending or underspending appropriated funds.

A review of the University's AFRs indicated that University expenditures increased 31 percent from 1998 to 2001. The increase was due, in part, to the 8 percent increase in enrollment during those years. According to the University, the increase in expenditures was also due to an increase in research grant awards, increases in salary mandated by the Legislature, and an increase in the number of students receiving scholarships and financial aid.

The University will have difficulty meeting two performance outcomes.

The University has identified four performance outcomes that could be improved. The University will have difficulty meeting two of these:

- Administrative cost as a percent of total expenditures.
- Percent of lower division courses taught by tenured faculty.

The performance target for the administrative cost outcome was 9.23 percent in 2001. The University's actual administrative cost as a percentage of total expenditures was 10.14 percent that year. The University specified that the high ratio of administrative costs to total expenditures resulted from:

- Salary increases and the associated increase in benefits.
- Expenses incurred to establish the University of North Texas System.
- The purchase of new database software for the new administrative information system.

The University does not expect to meet the performance target for the administrative cost outcome in the next few years primarily because of the additional costs associated with the acquisition of the new information system. In addition, the performance target for this measure is changing from 9.23 percent to 8.1 percent in 2002 and 2003.

The performance target for the percentage of lower division courses taught by tenured faculty was 47 percent in 1998 and 1999 and 49 percent in 2000 and 2001. The actual percentage of lower division courses taught by tenured faculty ranged from 29.65 percent to 39.18 percent during those years. According to the University, the percentage of lower division courses taught by tenured faculty has remained low

because of the University's sustained enrollment growth during the past few years and the difficulty associated with keeping pace with the two-year lag in formula funding. Because it takes time to hire tenured faculty, faculty who are not tenured have been teaching in order to meet the enrollment growth. In addition, tenured faculty have retired. The University indicated that these factors, along with the limited space available for additional, larger classes, have affected performance in this area.

To promote better performance in this area, the University has implemented an incentive through which it allocates funds to colleges that show improvement in the number of semester credit hours taught by tenured faculty. In 2001, the first year of implementation, three University colleges received a total of \$100,000 in incentive funds. The University indicated that it hopes to see improvement in the percentage of lower division courses taught by tenured faculty each year, but it is difficult to project performance for the next few years.

Two additional performance outcomes also need improvement.

The remaining two performance outcomes that the University has identified as needing improvement are:

- Retention rate of first-time, full-time, degree-seeking freshmen students after one academic year.
- Percent of first-time, full-time, degree-seeking freshmen who earn a baccalaureate degree within six academic years.

Targeted performance for the retention rate performance outcome was 73 percent for 1999 through 2001. The University's actual retention rate ranged from 68.2 percent to 69.2 percent during those years. Targeted performance for the graduation rate performance outcome ranged from 40 percent to 43 percent from 1998 through 2001. The University's actual graduation rate ranged from 36.1 percent to 38.7 percent during those years.

According to the University, retention and graduation rates have been a priority for several years, and the University is continuing to work to improve these outcomes. In 1992, the University developed an enrollment management committee. Review of strategic plans and progress reports for the Committee showed that it has taken measures to improve retention and graduation rates. These measures include:

- Supplemental instruction and supplemental tutoring, which currently serve 2,577 students in more than 50 classes.
- A first-year experience course to assist new undergraduate students.
- Initiatives to improve tracking of graduate prospects.
- New scholarships for students in the top 10 percent of their high school graduating class and students with high SAT scores.
- The joining of academic support services through the University's Learning Center.

Management's Response



UNIVERSITY of
NORTH TEXAS

Norval F. Pohl, *President*

February 28, 2002

Mr. Lawrence F. Alwin, State Auditor
P.O. Box 12067
Austin, Texas 78711-2067

Dear Mr. Alwin:

This is in response to your office's report on the "Financial Review of the University of North Texas."

Please be informed that I have read the report and I am in agreement with its findings. We appreciate the assistance of your office in confirming to our Board and the Legislative Audit Committee that they may rely on the financial information we submit for review and consideration.

Should you require any additional information, please let us know.

Sincerely,

A handwritten signature in black ink that reads "Norval F. Pohl".

Norval F. Pohl
President

xc: Ms. Sharon Brantley, Supervising Auditor

The leading university of the Dallas-Fort Worth region.

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ATTACHMENT