

State of Arizona
Office
of the
Auditor General

PERFORMANCE AUDIT

**UNIVERSITIES
FUNDING STUDY**

Report to the Arizona Legislature
By Debra K. Davenport
Auditor General
December 2000
Report No. 00-21

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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

December 1, 2000

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Dr. Lattie Coor, President
Arizona State University

Dr. Peter Likins, President
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Dr. Clara Lovett, President
Northern Arizona University

Transmitted herewith is a report of the Auditor General, University Funding Issues. This report is in response to Laws 1999, Chapter 1, requiring a review of three specific funding matters at Arizona State University, the University of Arizona, and Northern Arizona University. I am also transmitting with this report a copy of the Report Highlights for this special study to provide a quick summary for your convenience.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on December 5, 2000.

Sincerely,

Debbie Davenport
Auditor General

Enclosure

SUMMARY

The Office of the Auditor General has completed a study of three specific funding matters of the state universities. This study was conducted pursuant to the provisions of Laws 1999, Chapter 1, §57, and provides information about the following three funding sources:

- Policy initiatives (known as decision packages) that were approved by the Legislature for the fiscal years ended 1996 through 1999.
- Receipts from tuition and fees for the fiscal years ended 1990 through 1999.
- Student enrollment growth funding approved by the Legislature for the fiscal years ended 1990 through 1999.

Universities Used Decision Package Monies as Intended (See pages 9 through 14)

It appears that the universities spent or earmarked at least as much as the Legislature approved on programs or services that fit decision package initiatives and the outcomes were consistent with the intent of each decision package. However, the universities' expenditures of decision package monies can be tracked only to a limited degree because the universities often supplement decision package funding with monies from other state-appropriated dollars and sometimes do not separately account for the initiatives.

In most cases, the funding appropriated for decision packages was less than what the universities requested. The approved funding for the 16 analyzed decision packages represented about 25 percent of the total dollars requested and 32 percent of the

total full-time equivalent employees (FTEs) requested. The funding for these decision packages accounted for 8 percent of the total increases to the universities' total appropriations among fiscal years 1996 through 1999.

**Tuition and Fees Revenues
Substantially Increased
Over the Last Ten Years
(See pages 15 through 20)**

A review of tuition and fees revenues from the universities' audited financial statements showed that they increased 79 percent from fiscal years 1990 through 1999, gradually increasing as a proportion of unrestricted revenues. In fiscal year 1990, tuition and fees were 28 percent of unrestricted revenue sources and grew proportionally to 31 percent in fiscal year 1999. During the same period, state General Fund appropriations decreased in proportion from 62 percent in fiscal year 1990 to 57 percent in fiscal year 1999.

Expenditures of tuition and fees dollars cannot be isolated. Tuition and fees are recorded in unrestricted current operating funds, which also include state General Fund appropriations, governmental and private gifts, grants, and contracts, and other sources. Therefore, the universities cannot label certain expenditures as coming from one funding source and certain other expenditures as coming from other sources. However, expenditure types by functional classification can be easily identified because they are separately reported on the universities' financial statements. In each fiscal year of the ten-year period, over half of the universities' expenditures of unrestricted revenue sources were made for instruction and academic support.

**Student Enrollment Growth
Funding Appropriations Generally
Follow Changes in Student Populations
(See pages 21 through 24)**

Actual amounts the Legislature appropriated for student enrollment growth funding generally followed changes in enrollment trends at the universities. However, the amounts appropriated

have been less than that dictated by the “22-to-1 formula”—a student-to-faculty ratio formula used to calculate student enrollment growth funding budget requests. The formula’s basic premise is that for every 22 additional enrollments of full-time students, the universities request one additional full-time faculty position, a quarter-time secretary, a half-time support position, plus associated support costs. The formula can also result in negative funding shifts when student populations decline.

Although the universities did not always receive the full amount dictated by the formula, from fiscal years 1994 through 1999, the Legislature’s appropriated student enrollment growth funding approximated the changes in student populations. For example, full-time student enrollment grew 6.3 percent while total appropriated dollars grew 4.4 percent and total appropriated FTEs grew 4.2 percent from student enrollment growth funding approved net increases. However, the appropriated growth funding did not equal calculated formula amounts. From fiscal years 1994 through 1999, universities received 91 percent of requested increases in FTEs and 87 percent of requested increases in dollars. Over the same period, when enrollments declined and the universities requested decreases, overall the universities received a 5 percent greater reduction in FTEs and a 2 percent greater reduction in dollars. However, when Northern Arizona University requested reductions in fiscal year 1999, it received a 50 percent greater reduction in FTEs and a 35 percent greater reduction in dollars.

When the universities allocate total state-appropriated dollars and FTEs, they cannot segregate student enrollment growth funding increases or decreases in such a way to know exactly which employees were affected. However, the universities’ actual FTE employees at December 31, 1998 and 1999 were about 3 percent less than the total state-appropriated FTEs for those fiscal years.

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INTRODUCTION

At the Legislature's request, the Office of the Auditor General has conducted a review of three specific funding matters at Arizona State University, Northern Arizona University, and the University of Arizona. In Laws 1999, Chapter 1, §57, the Legislature called for the Office of the Auditor General to review the following for each university:

- Policy initiatives (known as decision packages) approved by the Legislature. The directive called for reviewing such initiatives from the year ended 1996, including identifying how the money was spent and what outcomes resulted.
- Receipts from tuition and fees. The directive called for analyzing what each university received in such fees from the years ended 1990 through 1999 and how the money was spent.
- Student enrollment growth funding. This funding provides monies for additional staff needed to meet enrollment increases. The directive called for reviewing such funding from the years ended 1990 through 1999 to determine how many positions had been added with the monies provided.

Methodology and Limitations

Auditors encountered limitations in responding fully to the request. The main limitation was the universities' legislative budget process. The universities' state-appropriated budget is made up of two revenue sources, state General Fund dollars and students' tuition and fees. The state-appropriated budget does not identify how much of each revenue source should be used to support a specifically identified decision package or student enrollment growth funding budget appropriation, and the state budget process does not require the universities to separately track expenditures from these appropriations. Because the universities cannot match every expenditure to a specific appropriated dollar or to either of the two revenue sources, auditors were

limited in determining which expenditures were financed with tuition and fees dollars and in determining how specific decision package and student enrollment growth appropriations were used. The following sections explain how the auditors conducted the work and describes the limitations they encountered.

Analyzing Decision Packages

- **Scope and Methods**—This review focused primarily on the decision packages identified by the universities. University and Joint Legislative Budget Committee staff explained that in university budgets, a decision package is defined as a written request for an incremental change to the existing base budget so that an identified policy initiative can be carried out. The universities' budget requests clearly indicate all decision packages they proposed while the *State of Arizona Appropriations Reports* normally do not identify additional appropriations as decision packages. Audit staff compared budget requests with *State of Arizona Appropriations Reports* and selected for analysis each approved budget item increasing the universities' base budgets that matched a decision package the universities requested.

Audit staff analyzed records including budget calculations, entries, and reports, as well as expenditure records, and interviewed the universities' budget directors and department heads to determine how the universities

- determine the objectives they want to accomplish in accordance with decision package guidelines,
- perform the allocation of the appropriated resources,
- record and track the associated expenditures, and
- monitor the outcomes.

- **Limitations**—Auditors were limited in determining the specific expenditures the universities made from the decision package appropriations the Legislature granted. Because of the budget process, universities pool appropriations for decision packages with other state-appropriated General Fund and tuition and fees dollars to pay for these initiatives. There-

fore, it is not possible to identify which expenditures came from the decision package appropriations. In addition, because many decision package requests are so functionally intertwined with the universities' primary missions of instruction, research, and public service, accounting records do not capture expenditures related specifically to some decision packages. In some cases, the universities were able to provide specific records indicating total allocations and expenditures to programs or services that fit decision package initiatives. In cases where allocations and expenditures could not be separated from other closely related activities, audit staff reviewed expenditures of programs, services, or departments to determine whether they were at least as much as the amount approved by the Legislature and whether at least the same level of spending continued in subsequent years.

Analyzing Tuition and Fees

- **Scope and Methods**—To conduct the audit of tuition and fees revenues and expenditures, auditors analyzed information from the universities' audited financial statements for the fiscal years 1990 through 1999. The financial statements were used because every fiscal year, the Office of the Auditor General conducts financial statement audits of each state university. Those audits are conducted in accordance with generally accepted auditing standards, and the universities have always received unqualified opinions indicating that their financial statements are fairly presented in all material respects. During the performance of those audits, tuition and fees revenues are analyzed, and tuition and fees receipts are sampled and tested for accuracy. In addition, expenditures are analyzed and transactions are sampled and tested to determine whether they are recorded for an accurate amount, reflected in the proper functional classification on the financial statements, and appear to be necessary to accomplish the universities' primary missions.

The analysis of the financial statements encompassed only revenues and expenditures of the general and designated unrestricted current operating fund groups. Only these two fund groups were included because they are where the universities record receipts for regular tuition for the fall, spring,

and summer sessions.¹ The associated expenditures are also recorded in these unrestricted current operating fund groups.²

Tuition and fees revenues consist of charges to all students for resident and nonresident tuition for regular and summer sessions, student financial aid trust fund fees, the Arizona Students Association fee, other special fees for campus recreation centers, and the University of Arizona student radio station. The revenues also include special class or programs fees and charges for specific student services or activities. However, for audit purposes, the tuition and fees revenues analyzed consisted mainly of the resident and nonresident tuition for regular and summer sessions.

- **Limitations**—From interviews with university budget directors and financial controllers, auditors determined that tuition and fees monies are pooled with state General Fund appropriations in the budget process and in the universities' financial records. In addition, the universities receive additional tuition and fees and other sources of revenue that are not included in their total state-appropriated budgets and these sources are also pooled. Because each expenditure is not matched to a revenue source, auditors could not determine the specific expenditures derived from tuition and fees revenues.

¹ On the universities' financial statements, unrestricted current operating funds include three major fund groups: General Operating, Designated, and Auxiliary. However, only the revenues and expenditures of the General Operating and Designated fund groups were included in this analysis because the tuition and fees revenues recorded in these fund groups include the resident and nonresident tuition charges for the fall, spring, and summer sessions. Auxiliary enterprise fund groups were excluded because their tuition and fees revenues include only special student fees assessed for specific auxiliary services, such as special testing services, meal plans, and student recreation centers.

² Mandatory transfers for debt principal and interest payments and for student financial aid matching requirements were included in the analysis of operating expenditures because they are required disbursements from unrestricted operating revenues.

Analyzing Student Enrollment Growth Funding

- **Scope and Methods**—Auditors researched the history and methods of the growth funding formula. They then interviewed university budget directors and other staff to determine the methods used to allocate increases or decreases from student enrollment growth funding. Budget allocation records were reviewed and analyses were performed from *State of Arizona Appropriations Reports* and from reports of full-time-equivalent employees (FTEs) and student enrollments issued to the Arizona Board of Regents.

- **Limitations**—Interviews with university budget directors revealed that the universities cannot track specific individuals hired and their associated expenditures with specific dollars and FTE employees appropriated from the student enrollment growth funding approvals. There are several reasons for this, including the following:
 - The monies are pooled with total state-appropriated dollars, as are the FTE positions to be funded. It would be impractical for the universities to track the enrollment growth monies and corresponding FTEs separately because each is a small piece of each university’s total state budget.

 - Increases or decreases in staffing related to growth funding may be masked by normal turnover. The universities combined have more than 35,000 employees. Because of this large number of employees, there is a significant amount of turnover occurring consistently over time. This turnover can make it difficult to identify specific individuals hired with the growth funding.

 - At times, it can take several years to locate, recruit, and hire qualified faculty members, and their appointments may involve other expenditures, such as specific laboratory or classroom equipment. Part-time graduate assistants and lecturers are sometimes used until faculty positions can be filled.

 - Establishing criteria for what constitutes an FTE can be difficult. Universities have diverse employee populations,

ranging from full-time faculty and administration to part-time, temporary positions filled by students. They are employed for various lengths of time on both salary and hourly bases.

- During the period examined, there were no uniform guidelines for the universities to follow to calculate FTE employees. Therefore, the universities used a variety of methods. Starting with fiscal year 1996, the universities were required by Section 114 of the General Appropriation Act to submit FTE employee budgeted and actual counts to the Director of the Joint Legislative Budget Committee staff. However, these calculations were not consistent between fiscal years and universities. Due to limitations and differences in the universities' payroll systems, consistently calculating FTE employees during the ten-year audit period is not possible. However, starting with fiscal year 1998, the universities' capabilities and methods were improved, but auditors faced severe limitations in analyzing actual FTE employees.

Another limitation relates to the period that could be covered in the analysis. The directive called for a review that included fiscal years 1990 through 1999. While FTE employees requested and appropriated could be compiled for the ten-year period, in fiscal years 1990, 1992, and 1993, the *State of Arizona Appropriations Reports* did not indicate the actual dollars appropriated for student enrollment growth funding. Therefore, the analysis of student enrollment growth funding was limited to fiscal years 1994 through 1999.

Campuses Covered

The analysis of all three aspects of funding covered the following campuses and related activities of the three universities:

- **Arizona State University (ASU)**—Main Campus, West Campus, and East Campus
- **Northern Arizona University (NAU)**—Main Campus, State-wide Operations, and Yuma Campus

- **University of Arizona (UA)**—Main Campus, Sierra Vista Campus, Arizona International College, and Arizona Health Sciences Center

The report presents findings in three areas:

- Universities used decision package monies as intended.
- Tuition and fees revenues increased substantially over the last ten years.
- Student enrollment growth funding appropriations generally follow changes in student populations.

The Auditor General and staff express appreciation to the staff of the Arizona Board of Regents, Joint Legislative Budget Committee, Arizona State University, Northern Arizona University, and the University of Arizona for their cooperation and assistance throughout the audit.

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FINDING I

UNIVERSITIES USED DECISION PACKAGE MONIES AS INTENDED

In fiscal years 1996 through 1999, the Legislature approved 16 decision packages requested by the universities. In each case, it appeared that the universities spent or earmarked at least as much as the Legislature approved on programs or services that fit decision package initiatives and continued to do so in subsequent years. However, the universities' expenditures of monies provided under legislatively approved decision packages can be tracked only to a limited degree. The decision packages were generally funded for less than the amount requested. The universities often supplemented the decision package amounts with funding from other state-appropriated dollars and sometimes combined the expenditures for the initiatives with expenditures for related services or programs as well. As a result, expenditures cannot be tracked to specific dollars and FTEs appropriated for decision packages, and sometimes decision package initiatives cannot be separated from other programs or services. Because the 16 approved decision packages were so diverse, outcomes were different for each.

Legislature Approved and Partly Funded Decision Packages

The 16 decision packages the Legislature approved represent about 20 percent of the packages the universities submitted for funding policy initiatives. For fiscal years 1996 through 1999, the universities requested \$133.8 million and 1,254 FTE positions to fund 73 decision packages. The Legislature approved \$14.5 million representing 11 percent of all decision package dollars requested. In addition, the universities received 233, or 19 percent of the FTEs requested.

Decision packages fund policy initiatives—As used by the universities, decision packages are requests for additional funding for identified policy initiatives. For example, ASU requested an

additional \$4.3 million in fiscal year 1997 for an initiative to improve graduation rates and increase undergraduate education quality by creating smaller classes taught by full-time permanent professional instructors. The majority of the money was for increased instructional staff. If the Legislature decides to approve funding for a decision package, the dollars and FTEs are specified in the *State of Arizona Appropriations Reports*. If a university is designated funding for a decision package, that designation of monies continues for that amount in subsequent years. The funding for subsequent years becomes part of the university's base budget and does not appear in the budget or appropriation as a decision package. If any additional monies for that decision package are approved in a subsequent year, only the additional dollars and FTEs are specified in the appropriations for that decision package.

Legislature approved partial funding for 16 requested packages—From fiscal years 1996 through 1999, the Legislature approved funding for 16 requested decision packages.¹ Table 1 (see page 11), shows the 16 packages, by university, and the dollars and FTEs requested and appropriated for each one. The approved funding totaled about \$14.5 million and total FTEs approved were 233.2.

Approved packages received only partial funding—In most cases, the funding appropriated for the 16 decision packages was less than what the universities requested. The approved funding represented about 25 percent of the total funding requested for the 16 packages, and the approved FTEs represented about 32 percent of the total requested. As Table 1 (see page 11) shows, the percentage of dollars approved ranged from 10 to 104 percent and the percentage of approved FTEs from 10 to 106 percent.

Funding for these decision packages accounted for 8 percent of the total increases to the universities' total appropriations among fiscal years 1996 through 1999. The other 92 percent of the increases to the universities' budgets was primarily for

¹ In the fiscal year ended 1999, the Legislature approved a percentage of the requested funding without specifying which decision packages should be funded. For consistency in presenting the information, auditors considered each of these lump-sum appropriations to be a single decision package.

Finding I

Table 1

**State University Funding Study
Decision Package Appropriations Compared with Requests
Years Ended June 30, 1996 through 1999**

Description	Year	Dollar Amounts			FTE Amounts		
		Requested	Appropriated	Percentage	Requested	Appropriated	Percentage
<u>Arizona State University</u>							
Improving Undergraduate Education	1996	\$ 2,877,300	\$ 1,125,700	39%	52.00	23.00	44%
Undergraduate Initiative	1997	4,332,400	1,200,000	28	86.00	24.00	28
	1998	2,839,400	1,013,400	36	51.00	19.00	37
Economic Growth and Engineering Excellence	1998	1,500,000	1,009,500	67	14.00	14.00	100
Lump-sum decision package	1999	11,050,000	1,929,500	17	148.00	33.00	22
Lump-sum decision package for the West Campus	1999	<u>500,000</u>	<u>182,500</u>	37	<u>5.00</u>	<u>5.30</u>	106
		<u>23,099,100</u>	<u>6,460,600</u>	28%	<u>356.00</u>	<u>118.30</u>	33%
<u>Northern Arizona University</u>							
Personalized Educational Support Technologies	1996	1,915,100	600,000	31	10.00	3.00	30
Undergraduate Initiative	1997	423,200	439,000	104	8.50	8.50	100
Ecosystem Restoration Program	1998	507,100	251,300	50	11.35	7.40	65
Technological Retrofitting of the Flagstaff Campus	1998	511,700	511,700	100	6.50	6.50	100
Lump-sum decision package and additional funding	1999	<u>8,205,800</u>	<u>1,720,900</u>	21	<u>62.75</u>	<u>40.00</u>	64
		<u>11,562,900</u>	<u>3,522,900</u>	30%	<u>99.10</u>	<u>65.40</u>	66%
<u>University of Arizona</u>							
Arizona Health Sciences Center (AHSC) Library/Learning Resource Center	1996	1,196,100	500,000	42	19.00	3.00	16
New Learning Technologies	1996	4,520,700	939,900	21	55.00	11.00	20
Undergraduate Initiative	1997	2,969,500	300,000	10	42.25	4.30	10
Excellence in Undergraduate Education	1998	1,500,000	600,000	40	26.00	12.00	46
Lump-sum decision package	1999	11,200,000	1,564,500	14	110.25	11.90	11
Lump-sum decision package and additional funding for AHSC	1999	<u>2,150,000</u>	<u>625,900</u>	29	<u>28.25</u>	<u>7.30</u>	26
		<u>23,536,300</u>	<u>4,530,300</u>	19%	<u>280.75</u>	<u>49.50</u>	18%
Totals		<u>\$58,198,300</u>	<u>\$14,513,800</u>	25%	<u>735.85</u>	<u>233.20</u>	32%

Source: Auditor General staff analysis of *State of Arizona Appropriations Reports* and Arizona State University's, Northern Arizona University's, and the University of Arizona's budget-request documentation for the years ended June 30, 1996 through 1999.

continuation adjustments. Continuation adjustments are considered to be increases for ongoing operations and include such things as salaries and employee related expenses and continued academic and facilities support, improving technology, enhancing instruction, and student enrollment growth funding.

Decision Package Appropriations Can Be Tracked Only to a Limited Degree

Specific expenditures from the appropriations can be tracked only to a limited degree. Because the universities generally did not receive full funding of decision package requests, they supplemented approved decision package dollars with other legislatively approved dollars. Also, because *State of Arizona Appropriations Reports* do not continue to distinguish decision package dollars and FTEs beyond the year appropriated, the universities do not track decision packages from prior years. For these reasons, auditors were not able to determine specifically which expenditures (such as salaries for specific positions) were paid from decision package dollars. Accounting records do not break down expenditures by their source of appropriated dollars. Also, because some decision packages were not accounted for separately from a department's other functions, auditors were not able to identify specific expenditures for decision package initiatives. In all instances, however, it appeared that the universities expended or earmarked at least the amount the Legislature approved for the stated purpose and continued to do so in subsequent years.

Combining additional dollars and FTEs with decision package appropriations makes tracking difficult—Although some decision package initiatives are separately identified in universities' accounting records, the appropriated dollars and FTEs are not separately identified from other state-appropriated General Fund and tuition and fees dollars. This makes it impossible to determine which expenditures were paid from decision package appropriations or from the other sources. In many instances, the universities have specific accounts where they record decision package initiative expenditures, but those accounts include revenues from sources other than decision package appropriations. Therefore, auditors could not match individual expenditures and funded FTEs with the decision package appropriations. In addition, when the Legislature appropriates a portion of decision package requests, it does not provide any specific guidance on which aspects of the program should be funded but instead provides a very general description. For instance, in the fiscal year ended 1997, UA's Undergraduate Initiative decision package appropriation was described as follows: "The approved amount provides \$300,000 and 4.3 new FTE positions to improve under-

graduate education through student learning strategies and communication technologies.”

In some cases, difficulty is in lack of separate accounts—Apart from problems with tracking specific decision package dollars and FTEs, another problem is that some initiatives are so closely tied with other efforts that they are not separately identified. For example, in fiscal years 1996 through 1998, ASU received three separate decision package appropriations for improving undergraduate education. Since providing and improving undergraduate education is always a basic function of the university, ASU did not create separate accounts for these specific decision package initiatives. The incremental appropriations for the decision package approvals were allocated to departments that serve ASU’s undergraduate population, including the Office of Student Affairs, College of Public Programs, College of Engineering, and College of Liberal Arts. The total amount approved, \$3.3 million, represents about 5 percent of these departments’ related expenditures in fiscal years 1998 and 1999.

Overall expenditures exceeded amounts appropriated for decision packages—Since universities were not required to and did not segregate specific decision package appropriated amounts, auditors were not able to identify the exact expenditures paid for with decision package dollars. When decision package initiatives were separately identified in the universities’ accounting records, auditors were able to determine that the universities spent at least as much on the initiative as was appropriated. Following are two examples of this situation:

- In fiscal year 1997, UA was appropriated \$300,000 and 4.3 FTEs to improve undergraduate education through student learning strategies and communication technology. No specific appropriations for this initiative were made in subsequent years, but assuming that the amount was built into UA’s funding in subsequent years, UA received a total of \$900,000 for the three years covered in this review (fiscal years ended 1997 through 1999). UA accounted for this initiative in an account entitled Undergraduate Affairs—Teaching Center. During the three-year period, UA recorded expenditures of \$1,855,405 in this account, about twice as much as the partial appropriation. UA focused its efforts on upgrading existing classrooms to a minimum level of technology.

- In fiscal year 1998, NAU was appropriated \$251,300 and 7.4 FTEs to advance the science and application of ecosystem restoration, resolving conflicts between conservation and preservation and the use of natural resources in the forest environment. No specific appropriations for this initiative were made in subsequent years, but assuming that the amount was built into NAU's funding in subsequent years, NAU received a total of \$502,600 for the two years covered in this review (fiscal years ended 1998 and 1999). NAU accounted for this initiative in its accounts entitled Bureau of Forestry Research and Office of Forest Ecosystem Restoration. During the two-year period, NAU recorded expenditures of \$937,424 in these accounts which was about 85 percent more than the partial appropriation. NAU focused its efforts on expanding undergraduate research and instruction in its Ecosystem Restoration Program and founded the Ecological Restoration Institute.

In both examples, the additional dollars expended came from other state-appropriated General Fund and tuition and fees dollars.

Decision Package Outcomes Are Diverse

Because the 16 approved decision packages were so diverse, the outcomes were different for each. However, each outcome was consistent with the intent of the decision package. Appendix A (see pages a-i through a-iii), lists each of the 16 initiatives and summarizes the universities' descriptions of the decision package outcomes.

FINDING II

TUITION AND FEES REVENUES SUBSTANTIALLY INCREASED OVER THE LAST TEN YEARS

During the fiscal years ended 1990 through 1999, the universities' gross receipts from tuition and fees rose from \$216.8 million to \$388.1 million. Although state General Fund appropriations still constitute the majority of the unrestricted monies universities received, tuition and fees now account for a slightly higher portion than they did ten years ago. Universities are not required to isolate their expenditures by revenue source. Therefore, it was not possible to determine the specific expenditures that were funded from tuition and fees. Because tuition and fees are combined with state General Fund appropriations and other revenue sources, audit staff could not determine which dollars paid for specific expenditures. However, a review of the universities' audited financial statements showed that more than half of the expenditures of unrestricted monies were for instruction and academic support.

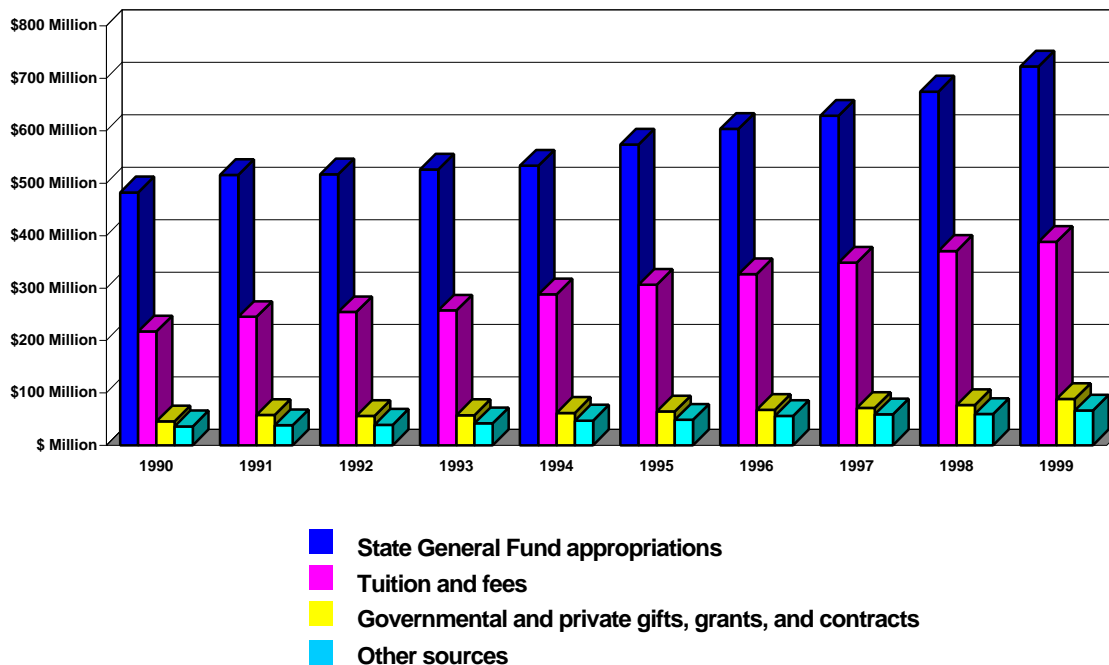
Proportion of Revenue from Tuition and Fees Has Increased

A review of tuition and fees revenues from the universities' audited financial statements showed that over a ten-year period they increased 79 percent and have gradually increased as a proportion of unrestricted revenues. The majority of the universities' unrestricted revenues still consists of state General Fund appropriations, which have gradually decreased as a proportion of unrestricted revenues.

Tuition and fees revenues rose 79 percent—As illustrated in Figure 1 (see page 16), tuition and fees revenues have increased from \$216,782,000 in fiscal year 1990 to \$388,110,000 in fiscal year 1999, an increase of 79 percent. During that same period, state General Fund appropriations increased 50 percent, and the universities' total revenues increased 62 percent. Appendix B (see page b-i)

Figure 1

**State University Funding Study
Revenue Source Comparison
Years Ended June 30, 1990 through 1999**



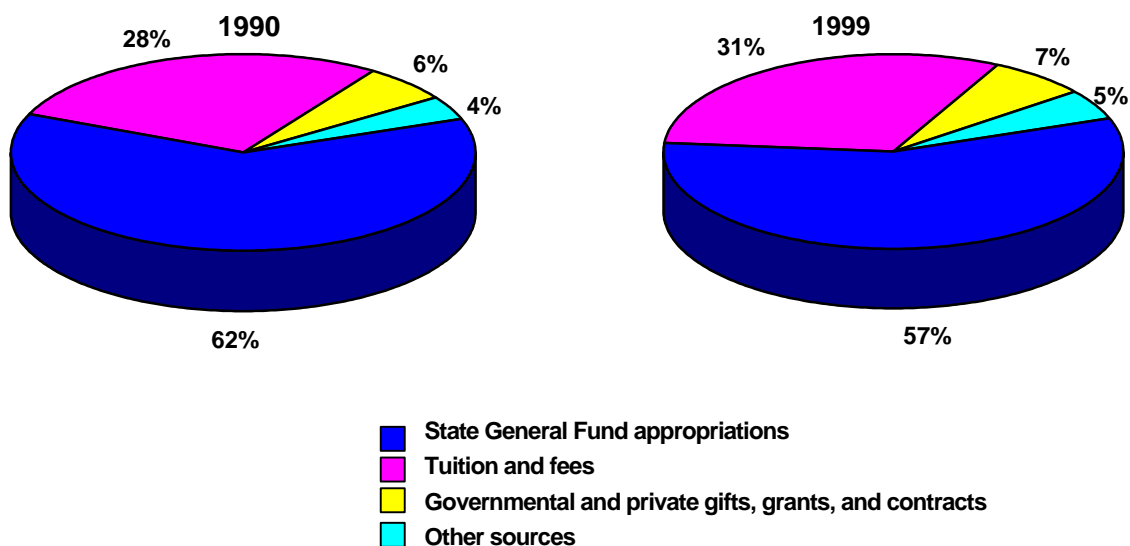
Source: Auditor General staff summary of audited financial reports of Arizona State University, Northern Arizona University, and the University of Arizona for the years ended June 30, 1990 through 1999.

contains the revenue sources of each university for the ten-year period.

Tuition and fees contribute about 30 percent of unrestricted revenues—Over the same ten-year period, the proportion of tuition and fees to state General Fund appropriations has shifted slightly. Tuition and fees revenues have averaged 30 percent of unrestricted revenues. As Figure 2 (see page 17) shows, the proportion of tuition and fees increased slightly from 28 percent in fiscal year 1990 to 31 percent in fiscal year 1999. During the same period, state General Fund appropriations have averaged 58 percent of unrestricted revenues and decreased in proportion, from 62 percent in fiscal year 1990 to 57 percent in fiscal year 1999.

Figure 2

**State University Funding Study
Revenues by Source
Years Ended June 30, 1990 and 1999**



Source: Auditor General Staff summary of audited financial reports of Arizona State University, Northern Arizona University, and the University of Arizona for the years ended June 30, 1990 and 1999.

**Expenditures from Tuition
and Fees Cannot Be Isolated
from Other Funding Sources**

Because revenue from tuition and fees is combined with revenue from other sources, it is not possible to label certain expenditures as coming from one funding source and certain other expenditures as coming from other sources. Tuition and fees are recorded in unrestricted current operating funds, which also include state General Fund appropriations, governmental and private gifts, grants, and contracts, and other sources including investment income, and sales and services of educational departments. All of these revenues are pooled together and can be and are used for supporting the universities' primary and support missions.

Instruction and Academic Support Expenditures Have Averaged 57 Percent of Operating Expenditures

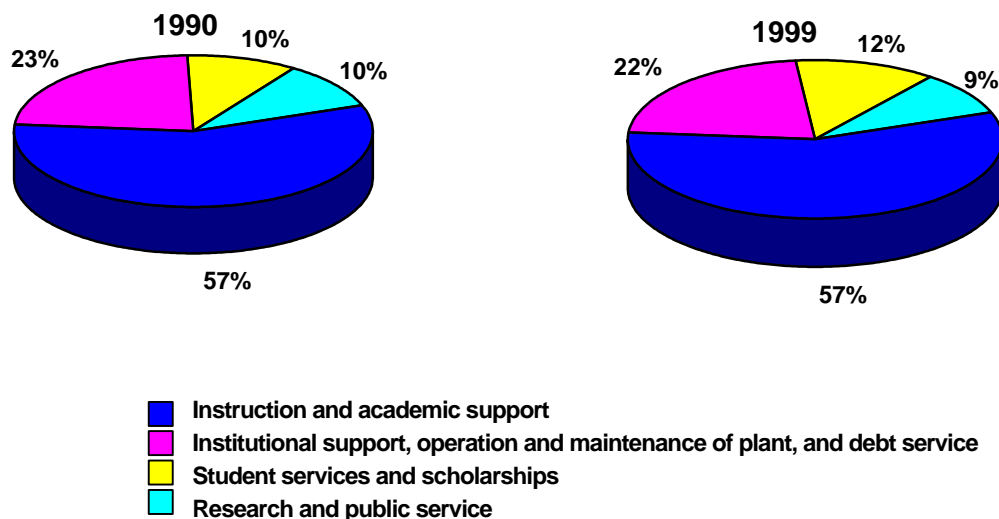
During the ten years included in this review, instruction and academic support expenditures remained the largest percentage of operating expenditures, averaging 57 percent since fiscal year 1990. That proportion has fluctuated slightly but has remained consistent over the ten-year period, varying by less than 1 percent. Overall, the percentage of all expenditures types has remained fairly consistent, varying by only a few points.

Expenditures are reported by functional classification—The universities report expenditures by functional classification type because it is required by generally accepted accounting principles. For example, instruction is one type of functional classification while academic support is another. Since certain functional classifications represent expenditures for related purposes, auditors grouped some classifications together to analyze and present the information. Appendix D (see page d-i) briefly describes these classifications and illustrates the classifications that were grouped.

Uses of unrestricted revenues has remained consistent—An analysis of the expenditures from the universities' audited financial statements revealed that instruction and academic support expenditures have averaged 57 percent of total operating expenditures over a ten-year period. This indicates that a majority of unrestricted operating revenues are used for providing instruction, academic materials, and direct support of instruction. The next highest use of unrestricted operating revenues was for institutional support, operation and maintenance of plant, and debt payments, averaging 23 percent of operating expenditures. The remaining percentage of expenditures was for student services and scholarships, averaging 11 percent and research and public service, averaging 9 percent. As illustrated by Figure 3 (see page 19), the relative percentages of these expenditure classifications have remained fairly consistent from fiscal year 1990 to 1999.

Figure 3

**State University Funding Study
Expenditures by Function
Years Ended June 30, 1990 and 1999**

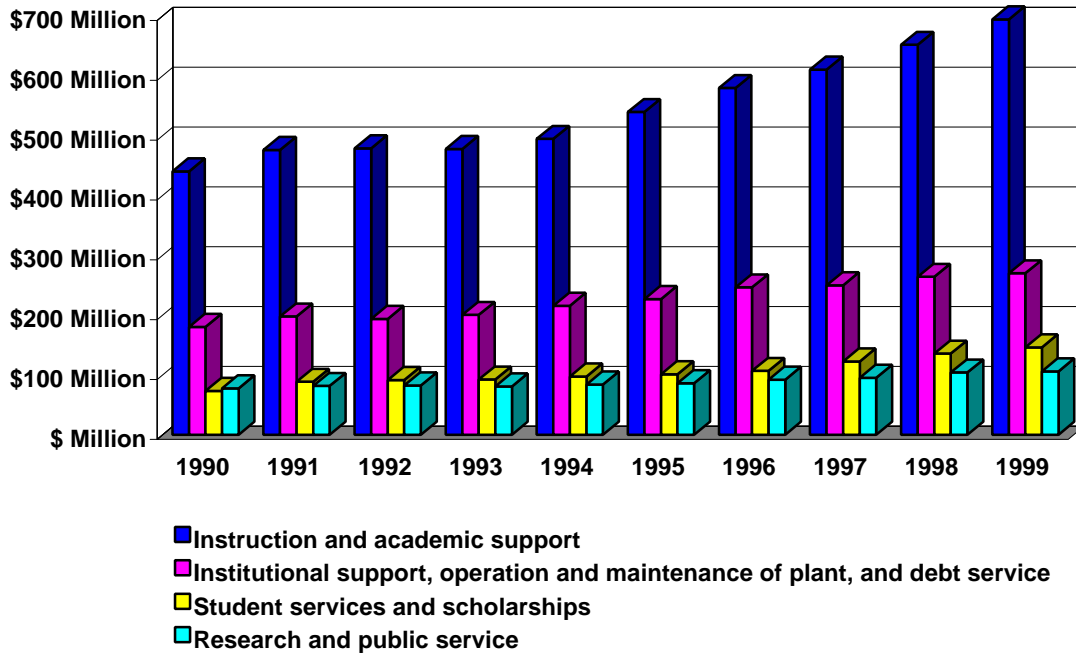


Source: Auditor General staff summary of audited financial reports of Arizona State University, Northern Arizona University, and the University of Arizona for the years ended June 30, 1990 and 1999.

Instruction and academic support expenditures rose 58 percent— Instruction and academic support expenditures have increased from \$440,203,000 in fiscal year 1990 to \$694,113,000 in fiscal year 1999, an increase of 58 percent. During that same period, all other operating expenditures rose from \$331,279,000 to \$521,977,000, also increasing by 58 percent. Figure 4 (see page 20), illustrates the ten-year trend in expenditures, and Appendix C (see page c-i) contains the expenditure functions of each university over the same period.

Figure 4

**State University Funding Study
Expenditure Function Comparison
Years Ended June 30, 1990 through 1999**



Source: Auditor General staff summary of audited financial reports of Arizona State University, Northern Arizona University, and the University of Arizona for the years ended June 30, 1990 through 1999.

FINDING III

STUDENT ENROLLMENT GROWTH FUNDING APPROPRIATIONS GENERALLY FOLLOW CHANGES IN STUDENT POPULATIONS

Actual amounts the Legislature appropriated for student enrollment growth funding, while generally following changes in student populations, have been less than the amounts dictated by the “22-to-1 formula”—a student-to-faculty ratio formula used to calculate student enrollment growth funding budget requests. The universities use the formula as a general guideline to calculate requested budget increases when there is a growth in student populations or requested budget decreases when student populations decline. Appropriated student enrollment growth funding has generally been less than the formula amount, and when there was a decline in student populations, the student enrollment growth funding reduction was sometimes greater than that determined by the formula. However, over time the percentage changes in student populations result in somewhat similar percentage changes to state-appropriated dollars. When the universities allocate total state-appropriated dollars and FTEs, they cannot segregate student enrollment growth funding increases or decreases in such a way to know exactly which employees were affected, but the actual FTE staffing at the universities is near the total appropriated.

22-to-1 Formula Provides Basis for Calculating Budget Request

The formula is not a statutory funding law but rather a convention to calculate a budget request. First used in 1959, the formula was developed by the universities and the Arizona Board of Regents with the agreement of the Joint Legislative Budget Committee. The formula’s basic premise is that for every 22 additional enrollments of FTE students, the universities request one

additional full-time faculty position, a quarter-time secretary, a half-time support position, plus associated support costs. Because changes in student enrollments may not always be positive, the formula can result in negative shifts in funding requests. Appendix E (see page e-i) contains detailed information about how the formula is used to calculate budget requests.

Universities Do Not Usually Receive Dollars and FTEs Dictated by the Formula

An analysis of legislative actions on formula budget requests shows that appropriated FTEs and dollar amounts are generally less than the amounts calculated using the formula ratio and methodology for establishing costs. When enrollments increased, the approved increase was generally less than what the formula dictated, and when enrollments decreased, the approved reductions were generally greater than the formula calculations. Table 2 (see page 23), compares the year-by-year formula and appropriated dollars and FTEs.

Universities received less than full request when enrollments increased—Normally, the universities do not receive the full amount of their enrollment growth requests, either in additional FTEs or in related dollars. On average, from fiscal years 1994 through 1999, universities received 91 percent of requested increases in FTEs and 87 percent of requested increases in dollars.¹ The percentage varied between the universities, with NAU receiving the highest percentage overall and UA receiving the lowest.

Universities received larger reductions than dictated by the formula when enrollments dropped—Because changes in student enrollments may not always be positive, the formula can result in negative shifts in funding requests. During the ten-year period from fiscal years 1990 through 1999, the formula resulted in reductions to appropriations in two years for ASU, four years for UA, and two years for NAU. When decreases in funding were

¹ The analysis was limited to fiscal years 1994 through 1999 for the reasons explained in the Methodology and Limitations section on page 5.

Table 2

**State University Funding Study
Student Enrollment Growth Funding
Years Ended June 30, 1994 through 1999**

	1994	1995	1996	1997	1998	1999
<u>Arizona State University</u>						
Formula dollars	2,556,100	3,407,400	4,471,900	1,616,800	6,054,400	10,264,100
Appropriated dollars	2,549,200	2,721,200	3,477,700	1,602,500	6,054,400	8,315,300
Formula FTE	47.25	63.00	78.75	28.00	105.00	175.00
Appropriated FTE	47.30	54.70	67.60	28.00	105.00	150.00
<u>University of Arizona</u>						
Formula dollars	(119,400)	2,068,500	729,200	(780,700)	(2,626,300)	1,127,400
Appropriated dollars	(119,400)	1,652,900	556,800	(540,100)	(2,692,500)	897,200
Formula FTE	(2.00)	38.50	12.93	(13.88)	(44.84)	19.01
Appropriated FTE	(2.00)	33.30	11.20	(10.80)	(45.00)	16.30
<u>Northern Arizona University</u>						
Formula dollars	2,227,800	648,500	1,948,300	2,946,900	(276,700)	(815,300)
Appropriated dollars	2,227,800	514,500	1,497,100	2,800,100	(276,700)	(1,101,600)
Formula FTE	40.30	11.70	33.43	49.74	(4.48)	(13.20)
Appropriated FTE	40.30	10.20	28.70	49.60	(4.50)	(19.80)

Source: Auditor General staff summary of *State of Arizona Appropriations Reports* and Arizona State University's, Northern Arizona University's, and the University of Arizona's budget-request documentation for the years ended June 30, 1994 through 1999.

determined, universities generally received a greater reduction in FTEs and related funding than that dictated by the formula. From fiscal years 1994 through 1999, the universities combined received a 5 percent greater reduction in FTEs and a 2 percent greater reduction in dollars. However, when NAU requested reductions in fiscal year 1999, it received a 50 percent greater reduction in FTEs and a 35 percent greater reduction in dollars.

**Funding for Increased Staff
Followed Enrollment Trends**

Over time, the funding and staffing authorizations for increased student enrollment were generally consistent with enrollment trends at the universities. From fiscal years 1994 through 1999,

full-time student enrollment grew 6.3 percent while total appropriated dollars grew 4.4 percent from student enrollment growth funding. In terms of employee positions, the Legislature appropriated 560 additional FTE employees, representing a 4.2 percent increase from fiscal years 1994 through 1999. In addition, there was ordinarily about a one-year time lag for changes in appropriations to reflect student enrollment changes.

Enrollment trends at the three schools varied considerably—

During the same six-year period, student enrollment increased 13 percent at ASU and 6 percent at NAU, while it decreased 2 percent at UA. Therefore, student enrollment growth funding appropriated increases were primarily associated with ASU and NAU. UA's dollar appropriation was actually reduced by \$245,100, while FTE employees increased by three.

**Actual FTE Employees
Approximates the Total
FTEs Appropriated**

During the audit period, the universities used a variety of methods to calculate FTE employees because there were no uniform guidelines, and they were faced with other difficulties discussed in the Methodology and Limitations section on page 5. Due to the limitations and differences in the universities' payroll systems, auditors were also not able to consistently calculate FTE employees for the period under review. However, starting with fiscal year 1998, the universities' capabilities and methods were improved and more comparable. An analysis of the universities' reported actual FTE employees to the Arizona Board of Regents at December 31, 1998 and 1999 showed that actual FTE employees were about 3 percent less than the total appropriated amounts for those fiscal years.

Agency Response

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November 21, 2000

Debra K. Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

We have reviewed the preliminary report draft of your funding study of Arizona State University, Northern Arizona University, and The University of Arizona. This study encompassed three specific funding matters for the universities—decision packages, tuition and fees, and student enrollment growth.

The Arizona Board of Regents and the three universities wholeheartedly embrace the report's findings. We express our appreciation for the diligent efforts of your office in conducting this study at the request of the Legislature.

Sincerely,

Linda J. Blessing
Executive Director

cc: President Lattie Coor, ASU
President Peter Likins, UA
President Clara Lovett, NAU

Appendices

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Appendix A
State University Funding Study
Decision Package Outcome Summary
Years Ended June 30, 1996 through 1999

Arizona State University

1996 Improving Undergraduate Education and 1997 and 1998 Undergraduate Initiative

- The Office of Student Affairs developed the “Freshman Year Experience” program to increase accessibility to academic advising, writing centers, and tutors in resident halls. ASU is benchmarking efforts through student surveys to determine effectiveness and has measured a 10 percent increase in sophomore persistence from the participating freshmen. In addition, the Office has made advancements in technology for student services, including access to grade reports, financial aid, and job search, and has made efforts to recruit top-scholar students to help maintain a balance between the numbers of lower-division and upper-division students.
- The College of Public Programs focused on offering more classes for undergraduate students so that class size is reduced and on providing quality instructors and improving advising services.
- The College of Engineering and Applied Sciences created new courses for undergraduates that are taught by tenured faculty. The College has also developed a program where groups of about 30 new incoming freshmen are put into teams. These teams stay together in their undergraduate courses, enhancing their support relationships and group cohesiveness and in turn enhancing their learning ability and development. The College increased its undergraduate enrollment through hiring employees dedicated to recruiting new enrollees and placing them in well-suited programs to help ensure their success.
- The College of Liberal Arts improved the quality of entry-level math and English courses by hiring more full-time professional faculty and offering courses that give the student greater learning abilities and success opportunities. They have allowed students in need of additional instruction to stretch the basic English course over two semesters, resulting in smaller class sizes and higher pass rates. Overall the College is working to replace part-time faculty with more dedicated tenure-track faculty and professional lecturers.

1998 Economic Growth and Engineering Excellence

- The College of Engineering and Applied Sciences created the Manufacturing Institute in collaboration with ASU College of Business and Motorola. The Institute represents a new form of partnership with Arizona’s manufacturing industry, one that advances the mutual goals of creating new knowledge, innovative education, lifelong learning, and global partnerships. ASU determined that, over the last four years, external support for research with potential economic impact grew 38 percent. ASU noted that the strengthened research programs have yielded positive outcomes, including an increase in freshman engineering students, increased persistence rate for freshmen students, and an increase in lower-division classes taught by ranked faculty.

1999 Lump-sum decision package

- The College of Engineering and Applied Science hired new faculty and staff to support research in the clusters identified by the Governor’s Strategic Partnership for Economic Development including the Software and Information Industry, High Technology Industry, and Bioindustry. To support an undergraduate student population that has almost doubled in the past five years, the College has hired temporary faculty while continuing its intensely competitive search for permanent computer science faculty.
- The College of Liberal Arts and Sciences added faculty and staff primarily in the sciences and mathematics to augment the interdisciplinary programs in biomedicine and environmental science. The College was successful in hiring a member of the National Academy of Sciences. He plans to bring an active research team to ASU to study the development of edible vaccines and to participate in the rapidly growing academic programs in the biological sciences.

Appendix A (Cont'd)
State University Funding Study
Decision Package Outcome Summary
Years Ended June 30, 1996 through 1999

Arizona State University (cont'd)

1999 Lump-sum decision package for the West Campus

- The West Campus created the University College Center. This center was developed to enrich the texture of undergraduate education, optimize student resources, and develop enrollments. The center exists to help ease a student's transition from the community college to university environment. It also provides extensive advising services and access to collaborative programs, such as the Honors College and Writing Center.

Northern Arizona University

1996 Personalized Educational Support Technologies

- NAU used the monies for three major areas:
 - 1) Modernizing student software systems and the hardware to support them
 - 2) Improving disability support services and hiring an additional signer
 - 3) Support of the Institute for Native Americans to support other campus units in recruitment and retention of Native American students and to maintain strong tribal relations

1997 Undergraduate Initiative

- NAU used the majority of these resources for the School of Hotel and Restaurant Management to establish a 12-month program, allowing summer classes to be held. NAU is also using a portion of this funding to begin the process of updating its student information computer system.

1998 Ecosystem Restoration Program

- NAU expanded undergraduate research and instruction in the Ecosystem Restoration Program. NAU developed a degree program that offers an emphasis in ecological restoration and has founded the Ecological Restoration Institute. The Institute received the 1999 Governor's Pride Award and received approximately \$2 million in federal grants. NAU's program is recognized as the nation's leading Ecological Restoration Program and is attracting new faculty and graduate students.

1998 Technological Retrofitting of the Flagstaff Campus

- Extended network access to academic buildings and residence halls on campus to serve 6,000 residence hall students to improve their undergraduate experience. NAU created and now operates student-worker computer help desks in residence halls and has updated technological equipment to better serve student needs.

1999 Lump-sum decision package and additional funding

- The *State of Arizona Appropriations Report* stated that this appropriation was for enrollment funding adjustment as well as various decision packages. About one-third of the monies was used to supplement enrollment funding deficits from the student enrollment growth funding formula appropriations. The remaining two-thirds was used for developing NAU's statewide academic programs that provide educational opportunities to students throughout the state and for NAU's technological network that provides interactive instructional television, interactive conferencing for other state government entities, and internet access for remote locations and community colleges in Arizona

Appendix A (Concl'd)
State University Funding Study
Decision Package Outcome Summary
Years Ended June 30, 1996 through 1999

University of Arizona

1996 Arizona Health Sciences Center (AHSC) Library/Learning Resource Center

- AHSC improved operations of the library's on-line catalog circulations system and new software site license. The library employed an additional librarian and two support staff.

1996 New Learning Technologies

- UA incorporated state-of-the-art telecommunication technologies to improve the quality of undergraduate education, faculty development, pilot courses, and new student orientation. Funding was used to create shared resources available to the entire campus, through learning technology support units, expanding the electronic network, providing library support, software, and site licenses, as well as for faculty development in technological areas.

1997 Undergraduate Initiative

- UA upgraded classrooms to a minimum level of technology, evaluating various technological capabilities such as, computer technology, lighting, and audio. In addition, it revamped older buildings to enable classrooms with projection capabilities, PowerPoint plug-ins, and video sources.

1998 Excellence in Undergraduate Education

- UA is making efforts to purchase and install an effective student information system that will enhance the students' capabilities to get current and accurate information about their educational progress and financial standing.

1999 Lump-sum decision package

- UA implemented a new program called Pathways to Student Success that encompassed new undergraduate curriculum and increased enrollment in the Colleges of Social and Behavioral Sciences, Humanities, and Science.

1999 Lump-sum decision package and additional funding for AHSC

- AHSC used approximately half of the monies for enhancing library operations and focused the remaining resources on public health needs and outcomes, establishing a Health Outcomes Project in the Colleges of Medicine, Nursing, and Public Health, to study health care reform to link collaborative research to rural areas.

Source: Auditor General staff summary of information provided by Arizona State University, Northern Arizona University, and the University of Arizona.

Appendix B
State University Funding Study
Revenue Sources of Each University
Years Ended June 30, 1990 through 1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Arizona State University											
State General Fund appropriations	\$188,902,000	\$206,523,000	\$205,027,000	\$208,554,000	\$213,928,000	\$232,653,000	\$245,281,000	\$256,071,000	\$279,145,000	\$305,349,000	\$2,341,433,000
Tuition and fees	97,537,000	110,712,000	111,962,000	113,350,000	127,167,000	137,638,000	148,124,000	160,934,000	175,109,000	181,326,000	1,363,859,000
Governmental and private gifts, grants, and contracts	9,865,000	12,117,000	12,028,000	13,084,000	13,937,000	14,186,000	16,409,000	17,449,000	19,067,000	19,935,000	148,077,000
Other sources	16,093,000	17,051,000	17,123,000	17,157,000	19,817,000	18,429,000	20,509,000	23,535,000	23,271,000	25,186,000	198,171,000
	312,397,000	346,403,000	346,140,000	352,145,000	374,849,000	402,906,000	430,323,000	457,989,000	496,592,000	531,796,000	4,051,540,000
University of Arizona											
State General Fund appropriations	230,678,000	241,145,000	241,157,000	243,886,000	243,706,000	259,367,000	271,590,000	281,453,000	297,030,000	313,366,000	2,623,378,000
Tuition and fees	87,570,000	98,215,000	102,775,000	102,881,000	114,506,000	118,458,000	122,855,000	129,805,000	135,766,000	144,747,000	1,157,578,000
Governmental and private gifts, grants, and contracts	34,860,000	44,237,000	42,404,000	42,424,000	45,368,000	47,559,000	47,885,000	49,381,000	53,289,000	64,572,000	471,979,000
Other sources	15,519,000	16,213,000	16,889,000	18,470,000	20,493,000	22,690,000	26,744,000	26,235,000	27,195,000	32,691,000	223,139,000
	368,627,000	399,810,000	403,225,000	407,661,000	424,073,000	448,074,000	469,074,000	486,874,000	513,280,000	555,376,000	4,476,074,000
Northern Arizona University											
State General Fund appropriations	62,647,000	67,984,000	70,503,000	73,489,000	75,531,000	81,583,000	86,473,000	90,922,000	98,146,000	103,318,000	810,596,000
Tuition and fees	31,675,000	35,923,000	39,146,000	40,871,000	46,492,000	50,147,000	55,642,000	57,680,000	59,807,000	62,037,000	479,420,000
Governmental and private gifts, grants, and contracts	875,000	1,156,000	1,571,000	1,821,000	2,278,000	2,676,000	2,990,000	4,174,000	4,072,000	3,741,000	25,354,000
Other sources	4,478,000	5,058,000	5,115,000	6,323,000	6,688,000	7,311,000	8,518,000	9,245,000	9,247,000	8,250,000	70,233,000
	99,675,000	110,121,000	116,335,000	122,504,000	130,989,000	141,717,000	153,623,000	162,021,000	171,272,000	177,346,000	1,385,603,000
Universities Combined											
State General Fund appropriations	482,227,000	515,652,000	516,687,000	525,929,000	533,165,000	573,603,000	603,344,000	628,446,000	674,321,000	722,033,000	5,775,407,000
Tuition and fees	216,782,000	244,850,000	253,883,000	257,102,000	288,165,000	306,243,000	326,621,000	348,419,000	370,682,000	388,110,000	3,000,857,000
Governmental and private gifts, grants, and contracts	45,600,000	57,510,000	56,003,000	57,329,000	61,583,000	64,421,000	67,284,000	71,004,000	76,428,000	88,248,000	645,410,000
Other sources	36,090,000	38,322,000	39,127,000	41,950,000	46,998,000	48,430,000	55,771,000	59,015,000	59,713,000	66,127,000	491,543,000
	\$780,699,000	\$856,334,000	\$865,700,000	\$882,310,000	\$929,911,000	\$992,697,000	\$1,053,020,000	\$1,106,884,000	\$1,181,144,000	\$1,264,518,000	\$9,913,217,000

Source: Auditor General staff summary of audited financial reports of Arizona State University, Northern Arizona University, and the University of Arizona for the years ended June 30, 1990 through 1999.

Appendix C
State University Funding Study
Expenditure Functions of Each University
Years Ended June 30, 1990 through 1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
<u>Arizona State University</u>											
Instruction and academic support	\$181,529,000	\$200,428,000	\$198,946,000	\$197,446,000	\$206,047,000	\$231,894,000	\$256,194,000	\$270,567,000	\$292,535,000	\$314,363,000	\$2,349,949,000
Student services and scholarships	32,610,000	41,582,000	44,121,000	45,207,000	48,847,000	50,179,000	52,306,000	56,777,000	65,283,000	71,086,000	507,998,000
Institutional support, operation and maintenance of plant, and debt service	71,278,000	78,381,000	77,918,000	78,097,000	86,720,000	89,520,000	94,924,000	97,645,000	103,474,000	107,264,000	885,221,000
Research and public service	15,546,000	17,959,000	18,853,000	18,485,000	17,650,000	18,881,000	20,755,000	20,782,000	22,874,000	24,493,000	196,278,000
	<u>300,963,000</u>	<u>338,350,000</u>	<u>339,838,000</u>	<u>339,235,000</u>	<u>359,264,000</u>	<u>390,474,000</u>	<u>424,179,000</u>	<u>445,771,000</u>	<u>484,166,000</u>	<u>517,206,000</u>	<u>3,939,446,000</u>
<u>University of Arizona</u>											
Instruction and academic support	207,199,000	218,704,000	219,618,000	217,784,000	220,274,000	233,442,000	244,533,000	253,771,000	266,414,000	281,840,000	2,363,579,000
Student services and scholarships	29,710,000	33,770,000	34,591,000	33,316,000	33,998,000	35,234,000	37,272,000	44,950,000	47,351,000	50,287,000	380,479,000
Institutional support, operation and maintenance of plant, and debt service	79,645,000	86,997,000	82,815,000	89,141,000	92,605,000	99,137,000	111,073,000	110,552,000	116,327,000	118,462,000	986,754,000
Research and public service	57,451,000	58,643,000	58,515,000	56,787,000	60,754,000	61,345,000	64,447,000	67,331,000	69,193,000	71,927,000	626,393,000
	<u>374,005,000</u>	<u>398,114,000</u>	<u>395,539,000</u>	<u>397,028,000</u>	<u>407,631,000</u>	<u>429,158,000</u>	<u>457,325,000</u>	<u>476,604,000</u>	<u>499,285,000</u>	<u>522,516,000</u>	<u>4,357,205,000</u>
<u>Northern Arizona University</u>											
Instruction and academic support	51,475,000	56,843,000	59,953,000	62,166,000	68,162,000	73,862,000	78,767,000	85,827,000	92,687,000	97,910,000	727,652,000
Student services and scholarships	11,072,000	13,167,000	12,924,000	13,737,000	14,569,000	15,839,000	17,090,000	20,740,000	23,055,000	24,705,000	166,898,000
Institutional support, operation and maintenance of plant, and debt service	29,340,000	32,131,000	32,786,000	33,106,000	36,148,000	38,077,000	40,243,000	41,656,000	44,152,000	44,145,000	371,784,000
Research and public service	4,627,000	5,071,000	5,194,000	5,691,000	5,543,000	5,917,000	6,844,000	7,177,000	12,081,000	9,608,000	67,753,000
	<u>96,514,000</u>	<u>107,212,000</u>	<u>110,857,000</u>	<u>114,700,000</u>	<u>124,422,000</u>	<u>133,695,000</u>	<u>142,944,000</u>	<u>155,400,000</u>	<u>171,975,000</u>	<u>176,368,000</u>	<u>1,334,087,000</u>
<u>Universities Combined</u>											
Instruction and academic support	440,203,000	475,975,000	478,517,000	477,396,000	494,483,000	539,198,000	579,494,000	610,165,000	651,636,000	694,113,000	5,441,180,000
Student services and scholarships	73,392,000	88,519,000	91,636,000	92,260,000	97,414,000	101,252,000	106,668,000	122,467,000	135,689,000	146,078,000	1,055,375,000
Institutional support, operation and maintenance of plant, and debt service	180,263,000	197,509,000	193,519,000	200,344,000	215,473,000	226,734,000	246,240,000	249,853,000	263,953,000	269,871,000	2,243,759,000
Research and public service	77,624,000	81,673,000	82,562,000	80,963,000	83,947,000	86,143,000	92,046,000	95,290,000	104,148,000	106,028,000	890,424,000
	<u>\$771,482,000</u>	<u>\$843,676,000</u>	<u>\$846,234,000</u>	<u>\$850,963,000</u>	<u>\$891,317,000</u>	<u>\$953,327,000</u>	<u>\$1,024,448,000</u>	<u>\$1,077,775,000</u>	<u>\$1,155,426,000</u>	<u>\$1,216,090,000</u>	<u>\$9,630,738,000</u>

Source: Auditor General staff summary of audited financial reports of Arizona State University, Northern Arizona University, and the University of Arizona for the years ended June 30, 1990 through 1999.

Appendix D
State University Funding Study
Summary of Functional Expenditure Classifications
As of November 2000

Functional Classification	Description
Instruction	Activities that are part of an institution's instruction programs for credit and noncredit courses for academic, occupational, and vocational instruction.
Academic Support	Support services that directly assist the academic functions such as library and museum materials, audiovisual services, computing support, course curriculum support, and academic administration.
Institutional Support	Activities of central management concerned with long-range planning of the entire institution, such as legal services, fiscal operations, data processing, space management, personnel management, and services for procurement, storerooms, safety, security, printing, and transportation.
Operation and Maintenance of Plant	Services and maintenance of grounds, facilities, and equipment as well as utilities, fire protection, and property insurance.
Debt Service	Mandatory deductions from the current operating funds for legal agreements related to financing, such as for debt retirement, interest, and required provisions for renewals and replacements.
Student Services	Activities contributing to students' emotional and physical well-being and intellectual, cultural, and social development, such as student newspapers, intramural athletics, student organizations, counseling and career guidance, and student health services. Student financial aid administration and the offices of admissions and the registrar are also included.
Scholarships	Grants, scholarships, and fellowships awarded to students, as well as trainee stipends, prizes, and awards to students.
Research	Activities specifically organized to produce research outcomes for individual and project research as well as that of institutes and research centers.
Public Service	Noninstructional services benefiting external individuals and groups, including community service programs and cooperative extension services, such as conferences, general advisory services, radio and television, institutes, and similar services to particular sectors of the community.

Source: Auditor General staff summary of functional expenditure classification descriptions in *Audits of Colleges and Universities* issued by the American Institute of Certified Public Accountants, May 1994.

Appendix E
State University Funding Study
Student Enrollment Growth Funding
22-to-1 Formula
As of November 2000

<i>For every increase of 22 FTE students, the universities request:</i>		<i>The dollars for the requested staff positions are determined based on:</i> The universities' current-year average salaries for tenure track faculty, Secretary III equivalents, or faculty support equivalents, plus employee related expenditures (ERE) using the Governor's Office of Strategic Planning and Budgeting Employee Related Expenditures Worksheet.
1.00	Full-time faculty position	
0.25	Secretary III equivalency for direct support	
0.50	Support position to cover increased workload in areas such as library, computing media services, telecommunications, academic facilities, testing, etc.	

<i>Universities also request support costs:</i>	<i>Amount for each 1.00 faculty position</i>	<i>Amount for each 1.00 secretary and support position</i>
Professional and outside service costs	\$1,600	\$ 0
In-state travel	300	0
Out-of-state travel	1,000	0
Other operating costs	1,800	1,800
Equipment	5,200	5,200

Since the early 1980's, the formula has been based on a three-year weighted rolling average of FTE students. The effect of this average is a two-year lag in funding increases or decreases. The lag mitigates the effects of large swings in enrollments which enables the universities to plan for a reduction rather than absorb an immediate reversion in the current year. The average consists of

- 25 percent of actual fall-semester FTE student enrollments for the current year,
- 50 percent of actual fall-semester FTE student enrollments for the prior year,
- 25 percent of projected fall-semester FTE student enrollments for the year the monies are being requested.

The increase or decrease in student enrollment is then determined by comparing FTE student enrollment most recently funded with the FTE student enrollment calculation based on the formula for the year of request. If the number of FTE students declined, these same calculations would be used to compute funding decreases.

Source: Auditor General staff analysis of information provided by the Board of Regents.