


**State of Arizona
Office
of the
Auditor General**

PERFORMANCE AUDIT

**ARIZONA'S
PARTICIPATION
IN THE

WESTERN
INTERSTATE
COMMISSION
FOR
HIGHER EDUCATION**


**Report to the Arizona Legislature
By Douglas R. Norton
Auditor General
May 1997
Report No. 97-8**



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May 7, 1997

Members of the Arizona Legislature

The Honorable Fife Symington, Governor

Dr. Frank Besnette, Executive Director
Arizona Board of Regents

Transmitted herewith is a report of the Auditor General, A Performance Audit of Arizona's participation in the Western Interstate Commission for Higher Education (WICHE). This report is in response to a May 29, 1995, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the Sunset review set forth in A.R.S. §§41-2951 through 41-2957.

The report addresses Arizona's participation as one of 13 compacting states that make up the Western Interstate Commission for Higher Education. The member states that comprise the Commission participate in a variety of higher education programs and services, including student exchange programs, telecommunications and research projects, and other special programs. The Board of Regents, which is statutorily authorized to govern the State's participation in the Commission, administers the Professional Student Exchange Program (PSEP). For fiscal year 1997, the Legislature appropriated over \$2.5 million for the PSEP, which allows students to attend out-of-state professional programs that are not currently available in Arizona's three public universities. Currently, Arizona supports students seeking careers in six professional fields, including dentistry, occupational therapy, optometry, osteopathic medicine, physician assistant, and veterinary medicine.

While the Commission's objectives for the PSEP are to help member states meet both their workforce needs and their residents' educational needs, we found that the Board of Regents can do more to ensure that the State's participation in the PSEP effectively meets these goals. Specifically, the Board should consider additional options for the PSEP to reduce costs and increase the number of students that might benefit from the Program. Currently, the high cost to support some professional fields, such as veterinary medicine and dentistry, requires a significant portion of available funding, leaving less than 20 percent of available monies to be divided among students in the remaining four professions. In addition, the Board should do more to incorporate Arizona's workforce needs into its administration of the PSEP. The Board currently has no formal method to consider Arizona's need for additional professionals when allocating its PSEP monies.

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

This report will be released to the public on May 8, 1997.

Sincerely,

Douglas R. Norton
Auditor General

Enclosure

SUMMARY

The Office of the Auditor General has conducted a performance audit of Arizona's participation in the Western Interstate Commission for Higher Education, pursuant to a May 29, 1995, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the Sunset review set forth in Arizona Revised Statutes (A.R.S.) §§41-2951 through 41-2957.

Arizona began participating in the Western Interstate Commission for Higher Education (Commission) in 1953, when 13 western states formed a compact to facilitate resource sharing among their higher education systems. At that time, many western states individually lacked both sufficient numbers of students and the financial ability to establish high-quality technical, professional, and graduate training in many essential fields, such as dentistry, medicine, and public health. Through the compact, the Commission attempts to help member states meet both their workforce needs and their residents' educational needs. The member states that comprise the Commission participate in a variety of programs and services, including student exchange programs, telecommunications and research projects, and other special programs.

Arizona statutes authorize the Board of Regents to govern the State's participation in the Commission's programs and activities. As such, the Board has designated one FTE to administer Arizona's involvement in the Professional Student Exchange Program (PSEP), which is the longest standing and best known of the Commission's programs. For fiscal year 1997, the Legislature appropriated over \$2.5 million for the PSEP, which allows students to attend out-of-state professional programs that are not currently available at Arizona's three public universities. This funding is used to pay support fees to participating PSEP schools to help cover the cost of the students' education. Arizona currently supports students seeking careers in six professional fields: dentistry, occupational therapy, optometry, osteopathic medicine, physician assistant, and veterinary medicine. The annual fees paid to support individual students vary by professional field, ranging from \$3,800 for physician assistant students to \$19,300 for veterinary medicine students.

In return for receiving state support, students agree to practice their profession in Arizona one year for each year they were supported through the PSEP. However, students who return to Arizona to work in underserved areas can reduce their service obligation by half (i.e., six months for every year of support). If students choose not to return to Arizona to work, they must repay 50 percent of the support expended on their behalf, plus interest calculated from the date of graduation.

The Arizona Board of Regents Can Enhance the Professional Student Exchange Program's Effectiveness (See pages 7 through 15)

The Board of Regents can do more to ensure that the State's participation in the Professional Student Exchange Program effectively meets the Commission's overall objectives of providing educational opportunities and helping states meet their workforce needs. Although Arizona supports the largest number of PSEP students compared to other states, it may actually be limiting its overall ability to provide professional education opportunities to its residents because the support fees required for some fields are high. For example, in academic year 1995-96, over 80 percent of support fees paid were for veterinary medicine and dentistry students, leaving less than 20 percent of available monies to be divided among students in the remaining four professions. Although students in these two fields typically exhibit the greatest interest in obtaining assistance, supporting high numbers of veterinary medicine and dentistry students requires a significant portion of available funding.

In addition, the Board has not emphasized the State's workforce needs for the various professional fields included in the PSEP. In particular, the Board has no formal method to consider Arizona's need for additional professionals when allocating its PSEP monies; instead, the Board typically funds the same number of new students to replace the number graduating annually in each field. Consequently, the Board may not be supporting the appropriate number of professionals in each field to help the State meet its workforce needs. Additionally, the Board does little to encourage PSEP students to practice in areas where shortages of professionals have been identified. Between fiscal years 1991 and 1996, only 3 of the 182 PSEP students returning to Arizona to practice professionally chose to work in an area identified as underserved. While many factors may affect a student's decision to practice in an underserved area, it appears some students may be deterred from practicing in these areas because the Board has not developed a formalized process for designating underserved regions and providing information to PSEP students about them.

The Board can take several steps to more effectively meet both Program objectives. First, in collaboration with the WICHE Commissioners, the Board should consider additional options for the PSEP to reduce costs and increase the number of students that might be able to benefit from the Program. These options include entering into agreements with other states or individual schools, as well as funding students at schools nationwide. Second, the Board should do more to incorporate Arizona's workforce needs into its administration of the PSEP. In order to do this, the Board will need to gather more information about what type and how many professionals are needed across the State. Once it has this information, it should determine how funding should be allocated to students in each of the professional fields. Finally, the Board can do more to encourage students to work in areas identified as underserved. Specifically, it can establish policies to assist professional licensing boards in identifying underserved areas and it can periodically inform students of where professionals are needed.

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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of Arizona's participation in the Western Interstate Commission for Higher Education pursuant to a May 29, 1995, resolution of the Joint Legislative Audit Committee. This audit was conducted as a part of the Sunset review set forth in Arizona Revised Statutes (A.R.S.) §§41-2951 through 41-2957.

History, Administration, and Purpose

Over 40 years ago, many western states individually lacked both sufficient numbers of students and the financial ability to establish high-quality technical, professional, and graduate training in many essential fields, such as dentistry, medicine, and public health. Therefore, in 1953, 13 western states formed a compact to facilitate resource sharing among their higher education systems. The original 13 western states forming the compact were Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming. North Dakota joined the compact in 1985 and South Dakota in 1988, raising its total membership to 15 states.

The Western Interstate Commission for Higher Education (Commission) was created in 1953 to administer the compact. The Commission consists of three resident members from each participating state, at least one of whom shall be an educator in the field of higher education. In addition, Arizona statutes authorize the Board of Regents to govern the State's participation in the Commission's programs and activities.

The Commission's mission for the compact is to “. . . *help its member states work together to meet the workforce needs of the states and the education needs of their residents . . .*” This mission helps guide member states in their administration and participation in the Commission's programs and activities.

Programs and Services

To meet the compact's objectives, the Commission has established a variety of programs and services. These include:

Student exchange programs Student exchange programs are the longest standing, and best known, of the Commission's programs. These programs allow states to ensure their students have access to technical, professional, and graduate training and assist the states in meeting their needs for professional and technical manpower without incurring the

expense of establishing and maintaining programs within their own institutions. The existing programs include:

- **The Professional Student Exchange Program (PSEP)** which is the oldest of the Commission's exchange programs, enables students in 13 of the 15 compact states to enroll in specific out-of-state professional programs not currently available at public institutions in their home states.¹ PSEP students generally receive admission preference over other out-of-state applicants and pay the in-state tuition fee at public institutions they attend, or approximately one-third of the tuition at private schools. The students also pay for books, supplies, meals, lodging, and other personal expenses. In return, the home state pays support fees to the admitting schools to help cover the cost of its students' education. This Program opens opportunities in the following 16 professional fields: architecture, dentistry, graduate library science, graduate nursing, law, maritime technology, medicine, occupational therapy, optometry, osteopathic medicine, pharmacy, physical therapy, physician assistant, podiatry, public health, and veterinary medicine.

Since 1953, Arizona has supported approximately 1,700 of its students in the Program. In addition to supporting PSEP students, Arizona also accepts other states' PSEP students. During academic year 1995-96, Arizona accepted 17 PSEP students while 157 Arizona PSEP students attended programs in other states.

- **The Western Regional Graduate Program (WRGP)** allows participating states' residents to enroll in a variety of specialized graduate programs at accepting institutions' in-state tuition rates. This is strictly a reciprocity program with no additional costs to participating states. Graduate programs are nominated by institutions and chosen by a regional committee through a review process. Selected programs must meet criteria of distinctiveness and quality. Examples include Arizona's solid state science, quaternary studies (study of a certain geologic period), and atmospheric sciences programs. Currently, 118 master's and doctoral programs at 36 institutions in 14 states participate in the WRGP.²

Between 1991 and 1995, 59 graduate students from other states enrolled in Arizona's WRGP programs. During this same period, 83 graduate students from Arizona enrolled in eligible programs in the other participating states.

- **The Western Undergraduate Exchange (WUE)** provides opportunities for students in 12 western states to enroll in designated undergraduate programs in other

¹ South Dakota does not participate in the PSEP. California has never sent students to other states under the PSEP; however, it has one of the highest rates of receiving students under the Program.

² California does not participate in the WRGP.

participating states at a cost of one-and-one-half times the resident tuition. During academic year 1995-96, approximately 7,000 students enrolled in 83 colleges and universities through the WUE. Arizona, California, and Washington currently do not participate in this Program.

Telecommunication, research, and other programs and services In addition to the two student exchange programs, Arizona also participates in a number of other special programs and services coordinated by the Commission that foster multi-state cooperation:

- **The Western Cooperative for Educational Telecommunication** fosters interstate and interinstitutional collaboration in the development and use of learning technologies. For example, the Western Cooperative was asked to assist in the design phase of the Western Governors' University an electronic virtual university that will use advanced educational technology to serve students across the West. In addition, the Western Cooperative collaborated with six institutions to provide distance education programs in engineering, health care, library science, and space studies to students in ten western states.
- **The research and information program** is directed toward higher education policy development. The Commission publishes research and policy reports on postsecondary education issues of special interest to the region. For example, the Commission published *Policy Indicators for Higher Education: WICHE States*, a fact book about higher education in the West.
- **The U.S.-Mexico educational interchange project** fosters dialogue, training, and collaboration between western U.S. and Mexican higher education institutions and organizations and is evolving into a regional resource to serve the western regions of the United States, Mexico, and Canada.
- **The mental health program** assists participating states in improving their public mental health services and advancing the preparation of a qualified mental health workforce in the West. Priority activities include research, policy analysis, consultation and technical assistance, and ethnic diversity projects.
- **Diversity of student, staff, and faculty activities** involve increasing the representation of racial and ethnic groups historically underrepresented in postsecondary education. For example, the Commission's Doctoral Scholars Program is designed to support minority scholars through their doctoral programs with the understanding that the scholars will move into faculty ranks when their studies are completed.

Staff and Budget

The Commission's programs are administered by staff located in Boulder, Colorado. In addition, the Board of Regents designates a full-time position within its office to administer Arizona's participation in the Commission's PSEP.

During fiscal year 1997, the Legislature appropriated over \$2.5 million for PSEP support fees and \$79,000 for annual dues. In addition to General Fund appropriations, various state agencies and institutions pay to participate in other Commission programs and services. Table 1 illustrates the annual dollar amounts contributed by the General Fund and Arizona agencies and institutions over the last five years to participate in the Commission and its programs.

Table 1

**Arizona's Cost of Participation in
Western Interstate Commission for Higher Education
Years Ended or Ending June 30, 1993 through 1997
(Unaudited)**

Fees and Dues	1993	1994	1995	1996	1997
Appropriated PSEP support fees	\$1,992,402	\$1,992,400	\$2,008,400	\$2,494,300	\$2,580,158
Annual membership dues	75,000	75,000	79,000	79,000	79,000
Mental health program fees ¹	15,000	15,000	15,000	15,000	15,000
Western Cooperative fees ²	3,875	6,625	6,400	4,600	5,000
Joint purchasing initiative fees ³	_____	_____	_____	8,000	_____
Total	<u>\$2,086,277</u>	<u>\$2,089,025</u>	<u>\$2,108,800</u>	<u>\$2,600,900</u>	<u>\$2,679,158</u>

¹ Paid by the Arizona Department of Health Services.

² Paid by Arizona State University, Northern Arizona State University, The University of Arizona, Arizona Board of Regents, Arizona Department of Education, Magellan University, and Yavapai College. Fees vary by size and type of institution or agency.

³ Paid by Arizona State University, Northern Arizona State University, The University of Arizona, and the Arizona Board of Regents. This one-time purchasing arrangement allowed the participants to jointly purchase specific telecommunications hardware used in educational transmissions.

Source: Auditor General staff analysis of fee and PSEP appropriation information provided by the Arizona Board of Regents.

Scope and Methodology

The Commission administers a variety of programs and services that promote regional cooperation and sharing of resources among the compact states. This review focused primarily on the area in which Arizona expends the most resources the Professional Student Exchange Program.

The following methods were used to review Arizona's participation in the Commission and its programs:

- To determine the history, scope, and operation of the Commission and its programs, Board and Commission staff, current commissioners, and two former commissioners were interviewed;
- To determine Arizona's level of participation in Commission programs and services and the associated costs, Commission and Board of Regent data from 1954-1997 were analyzed, including membership dues, program fees and support fees paid to the Commission, and the number of students enrolled in Commission programs;
- To assist in identifying issues related to Arizona's continued participation in the Commission, a prior Arizona Sunset audit report, conducted by legislative staff in 1987, was reviewed along with audit reports from four other states;
- To determine what similarities and differences exist between the Commission's PSEP and student exchange programs offered through other regional compacts, administrators of the three other regional higher education compacts in the United States were contacted;
- To obtain information about admission practices for nonresidents, admissions and student affairs personnel were interviewed at schools offering programs in the professions the PSEP supports;
- To obtain information on program availability and manpower needs, representatives from both state and national regulatory boards and associations that govern the professional fields supported by Arizona's PSEP were contacted;
- To determine how manpower shortage areas are designated for professional fields, staff from Arizona's Department of Health Services and the United States' Department of Health and Human Services were interviewed;
- To obtain information on other states' participation in the PSEP, a mail survey of representatives from other states' programs was conducted; and
- To obtain students' perceptions on various aspects of the PSEP, a mail survey of 282 former and current Arizona PSEP students was conducted.

This report presents a finding and recommendations regarding:

- The need for the Arizona Board of Regents to explore various alternatives to improve professional education opportunities for Arizona's students and help the State meet its workforce needs.

In addition to the finding, this report contains a response to the 12 Sunset Factors.

This audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to Arizona's commissioners, the executive director and staff of the Arizona Board of Regents, and the staff of the Commission's central office in Boulder, Colorado, for their cooperation and assistance throughout the audit.

FINDING I

THE ARIZONA BOARD OF REGENTS CAN ENHANCE THE PROFESSIONAL STUDENT EXCHANGE PROGRAM'S EFFECTIVENESS

The Arizona Board of Regents (Board) can do more to ensure that the Professional Student Exchange Program (PSEP) effectively serves students and also helps the State meet its workforce needs. Currently, the Board's ability to provide professional education opportunities through the PSEP may be limited based on the high costs for some professional fields the Program supports. In addition, the goal of meeting workforce needs historically has not been emphasized in Arizona. Therefore, the Board should consider several options for revising the Program that should improve its ability to fulfill both goals.

PSEP Encompasses Two Objectives

The Commission's mission for its programs, including student exchange programs like the PSEP, is twofold: to help states provide for their residents' educational needs, and to help states meet their workforce needs. The PSEP helps fulfill this dual mission by providing students from participating states with access to 16 fields of professional study not available at public higher-education institutions in their home states. In addition, the PSEP allows states to meet their needs for professional and technical manpower by producing professionals who, upon completion of their education, will return to their home states to provide services. Specifically, Arizona requires students to spend one year in the practice of their profession for each year they were supported through the PSEP.

Arizona began participating in the PSEP when it joined the Compact for Western Regional Cooperation in Higher Education in 1953. The State lacks public educational programs for 8 of the 16 professional fields the PSEP offers. As such, Arizona allows students to apply to professional programs at participating PSEP public and private schools in 6 health-related fields: dentistry, occupational therapy, optometry, osteopathic medicine, physician assistant, and veterinary medicine. Although the State also lacks public programs in both podiatry and maritime technology, Arizona currently does not support students in either of these fields.

Students who apply to participate in the PSEP must meet state residency, citizenship, and academic requirements. The individuals meeting these requirements receive PSEP certification from the Board and apply to participating PSEP schools, where their applications receive preferential consideration among those of other nonresidents. Students who receive admission offers from these schools become eligible for funding; however, the

number of students who receive funding depends on the amount of legislative appropriations available and the distribution of funding among the professional fields. These monies are used to pay support fees to admitting schools to help cover the cost of the students' education. The students pay reduced tuition, which is typically equal to resident tuition at the participating public schools at which they are accepted, or reduced tuition at the private schools. Upon graduation, students who return to Arizona to practice their profession are not required to repay the State. Students who choose not to return to Arizona must repay 50 percent of the support expended on their behalf, plus interest, calculated from the date of graduation.

As illustrated in Table 2, Arizona currently supports more students and pays more in support fees than any of the other states participating in the PSEP. In academic year 1995-96, the State expended approximately \$2.3 million.

Table 2

**Western Interstate Commission for Higher Education
Professional Student Exchange Program
Students and Support Fee Expenditures
Academic Year 1995-96
(Unaudited)**

Participating States¹	Total Support Fee Expenditures	Number of Students Supported	Average Cost Per Student²
Arizona	\$2,347,766	157	\$14,954
Wyoming	1,891,019	141	13,411
New Mexico	1,800,637	124	14,521
Montana	1,268,299	74	17,139
Hawaii	1,065,385	109	9,774
Utah	897,100	55	16,311
Nevada	776,868	94	8,265
Oregon	470,570	73	6,446
North Dakota	467,500	40	11,688
Alaska	247,200	15	16,480
Colorado	205,000	25	8,200
Washington	135,300	15	9,020
Idaho	125,735	19	6,618

¹ South Dakota does not participate in the PSEP. California has never sent students to other states through the PSEP; however, it does receive students from other states.

² The average cost per student depends on the professional fields supported and the number of students supported in each field since the support fees for each profession vary.

Board Limits Its Ability To Provide Professional Education Opportunities

Although the Board indicates PSEP participation is based on the State's interest in reserving places for Arizona residents at professional schools in other states, in some instances, the State incurs high costs for this preferential consideration, thus limiting the number of students who can benefit from the Program. For each PSEP position Arizona supports, the student pays a reduced tuition rate (generally resident tuition), while the State pays an annual support fee designed to help defray the cost of educating that student, based on tuition costs at participating public schools.¹ However, the fees Arizona paid to support veterinary medicine and dentistry students are more than would be required to offset the difference between average nonresident and resident tuition in these fields. As illustrated in Table 3 (see page 10), the difference between average nonresident and resident tuition for all public PSEP veterinary medicine schools was \$11,588 for academic year 1995-96. Nonetheless, member states paid a support fee of \$19,300, or 67 percent in excess of the amount necessary to offset the average difference in tuition. In fact, the support fee equaled the difference between nonresident and resident tuition at Colorado State University, the school accepting the most PSEP veterinary medicine students. Similarly, the difference between average nonresident and resident tuition at public PSEP dentistry schools for academic year 1995-96 was \$10,469 per student; nonetheless, PSEP states paid a support fee of \$13,900. As a result, for these two fields, the State and the student together paid as much as 19 to 40 percent more than the average nonresident tuition rate at public PSEP schools. (For a comparison of nonresident and resident tuition at all PSEP schools in the six professions Arizona supports, see Appendix A, page a-i.)

Due to the high support fees required for access into PSEP veterinary medicine and dentistry programs, fewer Arizona students can benefit from the PSEP. Historically, most of the students Arizona has supported have been veterinary medicine or dentistry students. Although students in these two fields typically exhibit the greatest interest in obtaining assistance, supporting high numbers of veterinary medicine and dentistry students requires a significant portion of available funding. As shown in Figure 1 (see page 11), during academic year 1995-96, veterinary medicine and dentistry students accounted for over 80 percent of all expenditures. While students in these two professions also accounted for the majority of those funded, (69 percent), this left less than 20 percent of available monies to be divided among the remaining four professions occupational therapy, optometry, osteopathic medicine, and physician assistant.

¹ Support fees are negotiated between the Commission and participating schools. The fees in each professional field are the same for every student, regardless of the student's home state, the institution in which the student is enrolled, or class level. Additionally, no participating state can send students through the PSEP at less than the established support fee.

Table 3

**Western Interstate Commission for Higher Education
Comparison of Per-Student PSEP Support Fee and
Difference Between Average First-Year Nonresident and
Resident Tuition at Participating Public
PSEP Schools by Professional Field
Academic Year 1995-96
(Unaudited)**

Professional Field	PSEP Support Fee	Average Nonresident Tuition	Average Resident Tuition	Difference in Tuition Rates	Amount of Support Fee over (under) Tuition Difference
Veterinary Medicine	\$19,300	\$19,508	\$7,920	\$11,588	\$7,712
Dentistry	13,900	18,119	7,650	10,469	3,431
Osteopathic Medicine ¹	12,300	20,815	8,515	12,300	0
Optometry	8,200	12,093	4,394	7,699	501
Occupational Therapy	5,000	9,425	3,152	6,273	(1,273)
Physician Assistant ²	3,800	12,478	9,114	3,364	436

¹ Currently, no public schools of osteopathic medicine participate in the PSEP. Therefore, the figures presented represent the support fee paid to the one private school that accepts PSEP osteopathic medical students.

² In the physician assistant field, if resident tuition plus the PSEP support fee is less than nonresident tuition, participating institutions may charge students the difference.

Source: Auditor General staff analysis of tuition and fee information provided by the Western Interstate Commission for Higher Education.

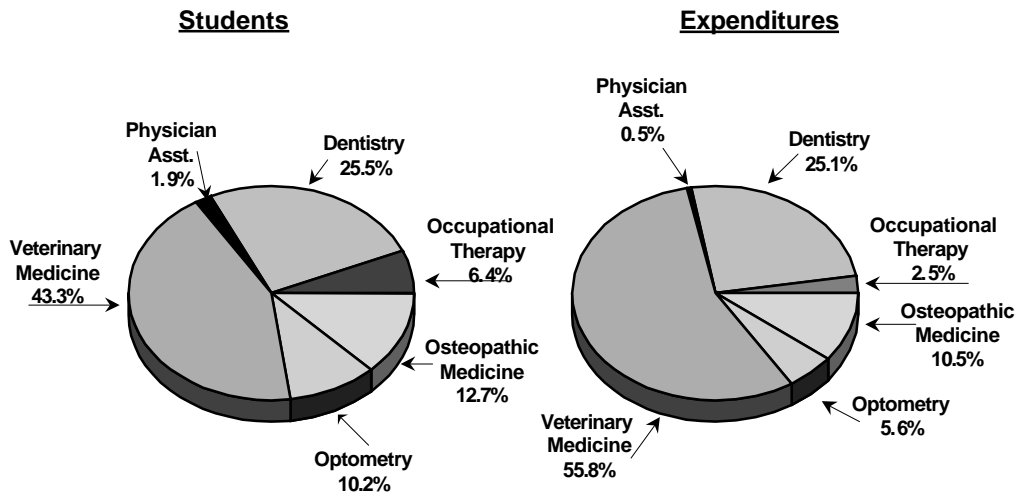
Arizona's PSEP Program Has Not Emphasized Workforce Needs

While providing educational opportunities may be Arizona's primary objective for participation in student exchange programs such as the PSEP, the Program's other goal, to help states meet workforce needs, has received little attention in the State. Although the Board has used some state and national health care workforce reports to justify its PSEP

budget requests, it has no formal method for regularly gathering and assessing data regarding Arizona's need for additional professionals when allocating monies among the fields it supports. Instead, the Board typically funds the same number of new students to replace those graduating in each field each year. As a result, the Board may not be supporting the appropriate number of professionals in each field. However, Commission staff note a trend among other participating states to place a greater emphasis on workforce needs when making funding decisions. In fact, the Commission recently initiated a study of the long-term need for professionals in the PSEP fields to help states make more effective funding decisions.

Figure 1

**Arizona's Participation in the
Professional Student Exchange Program
Students and Expenditures
Academic Year 1995-96
(Unaudited)**



Professional Field	Students	Expenditures
Veterinary Medicine	68	\$1,312,400
Dentistry	40	588,431
Osteopathic Medicine	20	246,000
Optometry	16	131,200
Occupational Therapy	10	58,335
Physician Assistant	3	11,400
Total	<u>157</u>	<u>\$2,347,766</u>

Source: *The Statistical Report: Academic Year 1995-96* published by the Western Interstate Commission for Higher Education.

Additionally, the Board does little to encourage PSEP students to practice in geographic areas where shortages of PSEP-supported professionals reportedly exist. For instance, state dentistry, osteopathic medicine, and veterinary associations, as well as the physician assistant board, indicated a need for these professionals in rural areas. However, very few PSEP students work in underserved areas even though their PSEP service obligation would be reduced if they did so. Specifically, students who work in underserved areas need only work 6 months for every year of support they receive. Despite this incentive, only 3 of the 182 students returning to Arizona to practice worked in an underserved area between fiscal years 1991 and 1996. While many factors may affect a student's decision to practice in an underserved area, students may be deterred from practicing in these areas because the Board has not developed a formalized process for designating underserved regions and providing information to PSEP students about them. In fact, 61 percent of the Arizona PSEP students surveyed indicated they had considered working in an underserved area; however, many indicated they needed more information about this option. As one student reported, I was unable to find anyone who could define an 'underserved' area for me . . . no one could tell me who made such decisions, how to find them, or how decisions were arrived at.

The Board Can Do More To Effectively Meet Both Program Objectives

The Board should take several steps to help the Program more effectively provide professional education opportunities and help meet the State's workforce needs. First, due to the high costs associated with some PSEP fields, the Board should seek to provide additional, more cost-effective opportunities for Arizona's professional students. Second, the Board should strive to incorporate Arizona's workforce needs into its administration of the PSEP and to encourage more students to work in areas of the State that need additional professionals.

The Board can increase its effectiveness in providing educational opportunities The Board should consider additional options to reduce costs associated with PSEP participation and potentially increase the number of students who might be able to benefit from the Program.

By providing alternatives to the PSEP for the high-cost professions, the Board could increase the number of students supported in other professions or potentially reduce the costs associated with providing opportunities. Other states that participate in the PSEP have reduced costs and/or expanded their students' professional education opportunities by supplementing or substituting their PSEP support with other arrangements. For example:

- **Agreements with other states** Several states have entered into agreements with other states to grant their students lower tuition rates. For instance, in 1996-97 North Dakota entered into a reciprocity agreement with Minnesota that allows its dentistry and veterinary medicine students to attend Minnesota schools at resident tuition rates. This agreement has resulted in significant savings for North Dakota since it does not pay a support fee to send students to Minnesota schools.
- **Agreements with individual schools** Several states have entered into agreements with individual schools to guarantee access to positions for their students. For example, Montana contracts with a school in Minnesota to provide additional positions to its dentistry students. Similarly, Idaho has a joint academic agreement with a school in Nebraska, in lieu of the PSEP, to provide positions to its dentistry students. While Idaho pays a higher fee per student than it would in the PSEP, it finds the individual contract more advantageous. In particular, according to an Idaho higher education official, Nebraska's program better meets the educational needs of students planning to practice dentistry in Idaho. In addition, the contract enables students to complete their first year of dentistry studies in Idaho, which both decreases students' costs and allows greater teaching opportunities for Idaho's faculty. Arizona also has a contract in place with an osteopathic medicine school in Missouri, which was established because there were no osteopathic medicine schools available through the Program. While one school has been added to the PSEP since that time, this contract is still used in conjunction with the Program. The Board should continue to explore this option for the other professions it supports through the PSEP.
- **Funding students at schools nationwide** Utah recently designed a program to fund some of its eligible veterinary medicine students at schools nationwide. Specifically, Utah will pay an annual support fee of up to \$10,000 to help students offset the costs of nonresident tuition at any accredited institution in the United States. Although those students will not receive preferential admission, they will receive financial benefits similar to those of the PSEP. In fact, the \$10,000 support fee should offset the difference between average nonresident and resident tuition among all veterinary medicine schools in the country. By applying funding in this manner, Utah's higher education department may save as much as 50 percent per student per year since it will pay only about one-half of the current PSEP support fee for veterinary medicine students.

The Board should incorporate workforce needs into its administration of the PSEP There are several steps the Board can take to ensure the PSEP provides benefits for Arizona's workforce. First, the Board should seek information regarding Arizona's professional workforce needs for all PSEP professions it supports through such entities as the Commission, as well as state and national professional boards, associations, and departments. Once it has determined what type and how many professionals Arizona needs, the Board, like other states, should use this information when making funding decisions. For example, Arkansas, in its association with the Southern Regional Education Board, has devised a formula to distribute monies based primarily on workforce needs. The Arkansas Department of Education gathers information regarding the growth of

professions from state professional associations and also considers the number of annual projected job openings. In addition, the formula compares Arkansas' number of professionals to the national average. Funding is then allocated to each profession based on the need for that profession. Similarly, the Board could develop a formula to help it distribute monies equitably among the professions it supports. This formula could be based on both student demand and workforce needs to allow Arizona to balance both PSEP goals.

Finally, the Board can do more to encourage students to work in areas of the State identified as needing professionals. In particular, the Board should:

- **Develop policies for designating underserved areas** A.R.S. §15-1745 currently requires licensing boards to designate areas of exceptional need for purposes of PSEP support repayment. However, only one of the six licensing boards whose professions are part of the PSEP has established criteria for designating underserved areas.¹ Therefore, the Board should provide leadership in working collaboratively with each licensing board to designate areas of need. Some resources are currently available that could help the Board in its policy development. For example, the Department of Health Services is currently responsible for designating health professional shortage areas for primary care practitioners (which include osteopaths and physician assistants), and it also collects some information about the number and location of dentists throughout the State. In addition, the Federal Department of Labor has developed criteria for states to use when designating professional shortage areas for five of the six PSEP fields.²
- **Provide information on underserved areas to PSEP students** Once underserved areas are identified, the Board should periodically inform students where the need for professionals exists. Other educational aid programs provide lists of designated shortage areas to their students. For example, Washington gives its PSEP students a list of designated shortage areas to consider when they apply for funding. Similarly, the University of Arizona provides medical loan students an updated listing of shortage areas during their final year of studies. The list includes contact names at health centers in the specific shortage areas to assist the students in obtaining employment in those areas. Likewise, the Board could disseminate detailed information to PSEP students at the time they apply for funding about the option of fulfilling their service obligation by practicing in underserved areas. Then, during the students' final year of support, the Board could provide an updated list of shortage areas as well as the names of health centers located in those areas.

¹ In September 1996, the Dental Board voted to accept the Arizona Department of Health Services Health Professional Shortage Areas Basic Listing as meeting its criteria for designating areas having shortages of dental practitioners.

² These guidelines provide criteria for all fields supported through PSEP except occupational therapy.

Recommendations

1. To increase Arizona students' professional education opportunities and decrease costs associated with the PSEP, the Board of Regents should explore various alternatives, such as:
 - Entering into agreements with other states to establish lower tuition rates;
 - Expanding the use of agreements with individual schools to guarantee access to particular programs; and
 - Funding students at schools nationwide.
2. To increase the PSEP's benefit to Arizona's workforce, the Board of Regents should obtain information on the number and type of professionals Arizona needs and use this information to more effectively administer the Program by:
 - Developing a funding formula that incorporates both workforce needs and student demand for each profession supported;
 - Providing leadership in working collaboratively with licensing boards to develop policies to use when designating underserved areas; and
 - Encouraging students to work in those areas identified as needing additional professionals.

SUNSET FACTORS

In accordance with A.R.S. §41-2954, the Legislature should consider the following 12 factors in determining whether Arizona's membership in the Western Interstate Commission for Higher Education (Commission) should be continued or terminated.

1. The objective and purpose in establishing Arizona's participation in the Commission.

In 1953, the Arizona Legislature authorized the Governor to enter into a compact for western regional cooperation in higher education with other western states. At the time the compact was established, it was determined that the future of the nation and the western states depended upon quality education, and many of the western states individually lacked both sufficient numbers of potential students and the financial ability to establish high-quality technical, professional, and graduate training in all of the essential fields, such as dentistry, medicine, and public health.

The Western Interstate Commission for Higher Education administers the compact and has adopted the following mission statement “. . . *to help its member states work together to meet the workforce needs of the states and the education needs of their residents . . .*” This mission helps guide member states in their administration and participation in the Commission's programs and activities.

2. The effectiveness with which Arizona's participation in the Commission has met its objective and purpose and the efficiency with which it has operated.

The Commission has established a variety of programs and services that facilitate western regional cooperation in higher education. Although Arizona actively participates in most of the Commission's activities, this report focuses on Arizona's participation in the Professional Student Exchange Program (PSEP). Our report reveals that the Board of Regents has not adequately ensured that Arizona's participation in the PSEP meets the dual goals the Commission established. Specifically, educational opportunities for Arizona's students may be limited because support fees for some professional fields are high. In addition, Arizona historically has not considered the State's workforce needs when making funding decisions for the Program.

To ensure the Board's participation in the PSEP is effective, this report indicates the Board should seek alternative, more cost-effective approaches for providing educational opportunities, and identify what Arizona's workforce needs are for the professionals the PSEP is currently supporting (see Finding I, pages 7 through 15).

3. The extent to which Arizona's participation in the Commission has operated within the public interest.

Through its membership in the compact in general and its student exchange programs in particular, Arizona has generally operated within the public interest by allowing its students access to some professional and graduate programs not available in Arizona's public institutions. Arizona's membership also provides access to the Commission's many other programs and research activities, such as the Western Cooperative for Educational Telecommunications and the U.S.-Mexico educational interchange project.

Although membership has allowed access to and participation in several programs, this report indicates that the Board can do more to serve the public by seeking more cost-effective methods of providing educational opportunities to students and incorporating Arizona's workforce needs into its administration of the PSEP (see Finding I, pages 7 through 15).

4. The extent to which rules and regulations promulgated by the Board of Regents are consistent with the legislative mandate.

The Board, which administers Arizona's participation in the PSEP, has not promulgated any rules regarding the Commission or its programs. However, the Board's role as administrator and the PSEP requirements are outlined in state statutes and reiterated in the Board's policies.

5. The extent to which the Board of Regents has encouraged input from the public before promulgating its rules and regulations and the extent to which it has informed the public as to its actions and their expected impact on the public.

Since the Board has not promulgated any rules regarding its participation in the Commission or its programs, this factor does not apply.

6. The extent to which the Commission has been able to investigate and resolve complaints that are within its jurisdiction.

According to Board of Regents officials, it receives few complaints regarding the PSEP. These complaints typically are initiated by students who were initially denied certification or funding. According to Board officials, these complaints have been handled and resolved at the administrative level.

7. **The extent to which the Attorney General or any other applicable agency of state government has the authority to prosecute actions under enabling legislation.**

This factor does not apply to Arizona's participation in the Commission.

8. **The extent to which the Board of Regents has addressed deficiencies in the enabling statutes which prevent it from fulfilling its statutory mandate.**

Only a few changes have been made to the compact's enabling legislation since its adoption in 1953. These changes have primarily involved minor statutory wording changes. However, in 1980, the Board requested a change regarding the PSEP. Prior to 1980, A.R.S. §15-1744, which describes the certification process for PSEP students, required the Board to "*select a group in each allowable professional field equal to three times the number possible for participation in a given school year . . .*" Specifically, this statute required the Board to certify three times as many students as would actually receive funding. The Board requested this requirement be eliminated because not enough students applied in all fields to meet the requirement.

9. **The extent to which changes are necessary in the laws regarding Arizona's participation in the Commission to adequately comply with the factors listed in the sunset laws.**

Our review does not indicate that any changes to the laws are necessary.

10. **The extent to which the termination of Arizona's participation in the Commission would significantly harm the public health, safety or welfare.**

Because an interstate compact was formed by 15 states, Arizona does not have the authority to terminate the compact or the Commission, although the Legislature could decide to end Arizona's participation in the compact. Such termination would not likely harm the public health, safety, or welfare. However, if Arizona were to stop participating, it would no longer have access to the programs and activities established as a part of the compact, such as the educational telecommunications and research projects. In addition, without access to student exchange programs, its students would be precluded from acceptance into professional programs that limit their admission to students from states that participate in the PSEP. Moreover, students would need greater financial resources to cover nonresident tuition and all other expenses. Finally, by not participating in the Commission's student exchange programs, such as the PSEP, Board officials believe the State would incur an obligation to create programs within Arizona to provide professional education opportunities. They contend that this would be a very costly endeavor for the State to pursue.

However, if the Legislature were to decide to discontinue Arizona's participation in the compact, this withdrawal would not occur immediately. Specifically, according to the compact's terms, there is a two-year time lapse from the date the necessary legislation is passed to the time a state may withdraw from the compact.

- 11. The extent to which the level of regulation exercised by the Board of Regents is appropriate and whether less or more stringent levels of regulation would be appropriate.**

This factor does not apply because the Board is not a regulatory agency.

- 12. The extent to which the Board of Regents has used private contractors in the performance of their duties and how effective use of private contractors could be accomplished.**

The Board of Regents has not used private contractors for Arizona's participation in the Commission. The administration of Arizona's participation in the PSEP has been limited to one full-time position supported through the Board of Regents' budget.

Agency Response

***THE ARIZONA BOARD OF REGENTS' RESPONSE
TO THE PERFORMANCE AUDIT OF
ARIZONA'S PARTICIPATION IN THE
WESTERN INTERSTATE COMMISSION FOR HIGHER EDUCATION
(WICHE)***

April 30, 1997

THE ARIZONA BOARD OF REGENTS' RESPONSE
TO THE PERFORMANCE AUDIT OF
ARIZONA'S PARTICIPATION IN THE
WESTERN INTERSTATE COMMISSION FOR HIGHER EDUCATION (WICHE)
(April 30, 1997)

We believe that the Performance Audit focuses appropriately on several important policy considerations related to Arizona's participation in the Western Interstate Commission for Higher Education (WICHE). We commend the Auditor General's staff members for their hard work, and their willingness to take the necessary time to understand the complexities and value of the WICHE program. Further, we appreciate the opportunities that have been provided to us to comment on earlier drafts of the audit, and acknowledge the staff's willingness to incorporate a number of our suggestions into the final report.

We are in substantial agreement with the recommendations contained in the audit report, and are prepared to take appropriate steps to implement these recommendations. We particularly concur with the Auditor General's recommendation that Arizona should explore various alternatives that could lead to increased educational opportunities for Arizona students.

As acknowledged in the audit report, the WICHE compact is an interstate compact formed by 15 western states. Several concerns raised by the audit flow from perceived limitations, or lack of flexibility, that derive from a governance and policy framework that seeks to take into account the overall needs of each state which participates in the compact. Although we believe the WICHE program has conferred substantial benefits to our state, we agree that it makes sense to explore options, both within and without the parameters of the existing WICHE framework, and we pledge to undertake that task.

Although in general agreement with the audit findings, the Board would like to clarify certain items in the report.

The report notes that supporting high numbers of veterinary medicine and dentistry students requires a significant portion of available funding (Page ii).

Arizona has traditionally allocated the largest number of PSEP slots to veterinary medicine and dentistry because of the level of interest from students who want to study in these two fields in comparison to the other professional fields. During 1995-96, 58% of all applicants who were certified as eligible to participate wished to study veterinary medicine and dentistry. Funding was provided for 31, or 62%, of the 50 new-starts in these two most highly-sought fields.

The report suggests that the Board should consider additional options for the PSEP to reduce costs and increase the number of students that might be able to benefit from the Program (Page ii).

A majority of the policies and operating protocols currently in place are the result of specific agreements that have been entered into between and among the states that participate in the WICHE compact. It may require concerted efforts by the Board, in collaboration with Arizona's three WICHE Commissioners, and the legislative and executive branches, to work with the WICHE Commission to allow for additional flexibility within the current administration of the PSEP. Additionally, Arizona cannot send students through the WICHE-Professional Student Exchange Program at less than established support fee rates.

The report says that the fees Arizona paid to support veterinary medicine and dentistry students are more than would be required to offset the difference between average nonresident and resident tuition in these fields (Page 9).

One of the foundations of the WICHE program is that receiving institutions must have a financial incentive to reserve slots for WICHE students. The Professional Student Exchange Program (PSEP) began because nonresident students were finding it increasingly difficult to gain access to public professional schools. Historically, support fees were set to approximate the average cost of instruction for all schools in a given field. For public institutions, this meant that WICHE support (defined as the sum of the support fee and resident tuition paid by the student) always exceeded the average nonresident tuition, thereby providing the sought-for incentive. Private institutions received the support fee plus one-third of regular tuition from WICHE students, and historically this amount exceeded their regular tuition rates. In recent years, however, this framework has changed. In response to the difficult financial situation faced by several states, the WICHE Commission has tried to hold down increases in support fees to below the rate of inflation. At the same time, states and professional schools have increased tuition, with nonresident and private institution rates seeing the greatest increases. Because of these factors, PSEP no longer provides as significant a financial incentive to receiving institutions. Between 1990-91 and 1995-96, the rate by which WICHE support (resident tuition plus support fee) exceeded nonresident tuition in public Group A¹ fields dropped from an average of 35 percent to 18 percent.

Additionally, the analysis of support fee levels in veterinary medicine must take into account the fact that in this field, alone among PSEP fields, the programs (Colorado State University, the Washington-Oregon-Idaho Program, and the University of California at Davis) that enroll virtually all the WICHE students within the region are truly regional programs. These programs were initiated by groups of institutions and states for the benefit of the entire region, rather than evolving from the willingness of individual institutions to make available a limited number of slots for nonresident students.

The numbers of students supported in the field of veterinary medicine were incorporated in contracts signed in the late 1970's to save Arizona the expense of building and operating a college of veterinary medicine in Arizona. Arizona did feasibility studies and proposals for the construction of an in-state college of veterinary medicine in 1972, 1974 and 1977. The original 1972 study suggested that total construction costs would be \$24 million, and a state appropriated operating budget of \$4 million annually was anticipated. Those calculations were based on 1972 budgets of existing colleges of veterinary medicine in the United States.

During 1974, the states of Washington, Oregon and Idaho advanced plans for expansion of the veterinary medical facilities at Washington State University. The WOI program would annually accommodate 50 students from Washington, 13 from Idaho, and 28 from Oregon, plus 13-15 from other WICHE states.

During 1975, WICHE staff advanced proposals for a regional program at Colorado State University (CSU) to the eight WICHE states that had no other access to veterinary medical education. The plan required construction of a new veterinary hospital at CSU, permitting expansion of the annual class size from 94 to 137, of which 62 were to be from WICHE states and 75 from Colorado. All eight states (Alaska, Arizona, Hawaii, Montana, Nevada, New Mexico, Utah, Wyoming) quickly indicated their desire and commitment to participate. Currently, Arizona is able to fund 68 students who participate in the 4-year regional veterinary medical programs (56 at CSU; 12 at WOI.)

Representatives of each "sending state" agreed "to pay the full net cost of education--direct and indirect costs reduced by federal capitation received, income from the animal hospital, and also by the student's tuition payment--plus a capital facility use fee for each student enrolled, and to continue the payment for each student for the duration of his or her enrollment. In return, each sending state was assured of a minimum number of places in the entering class for at least the next 20 years.

In 1976, the WICHE Commission formally determined that support fees should be tied to the current cost of instruction. Under the cost of education principle, support fees increased sharply in the late 1970's. In 1980, the Commission debated the full cost principle as it applied to all fields and determined that support fees should thereafter be negotiated in reference to a "fee for services" concept, rather than exclusively on a cost of education approach.

In 1988, the WICHE Commission undertook a review of the support fee structure for veterinary medicine. The Commission decided to move away from a fee structure which required full direct and indirect cost recovery to a negotiated fee structure pegged to the cost of delivering the instructional program (cost of education.) The agreement was that the Colorado Legislature would accept an annual support fee of \$18,400 for five years. Thereafter, the fee would be set through the kind of negotiations followed by WICHE for other category A fields. Additionally, CSU agreed to set out-of-state tuition at the support fee rate.

Therefore, although the support fee in veterinary medicine is high compared to support fees in several other fields, Arizona literally owns veterinary slots at CSU, and is paying far less than the cost of education. The 1995-96 support fee of \$19,300 was \$16,489 less than the 1994-95 cost of education at Colorado State University which was \$35,789 as reported by the Association of Veterinary Medical Colleges (see Appendix 1). It should be emphasized that in the absence of the regional programs in veterinary medicine, and the reserved slots for Arizona students, it would be highly unlikely for Arizona to be able to provide veterinary medical educational opportunities to 68 students each year.

The report states that the Board has no formal method for regularly gathering and assessing data regarding Arizona's need for additional professionals when allocating monies among the fields its supports (Page 10).

It should be noted that the 1995-96 Critical Issues Request, submitted to the Arizona Legislature, was based solely on the need for trained health care professionals in Arizona as documented in a variety of sources. Of the 35 positions requested for reinstatement, 11 or 31% were for additional occupational therapists. The American Hospital Association (AHA) had indicated a national vacancy rate among Occupational Therapists in hospitals of 14.2 percent in 1991, up from 13.6 percent two years earlier. This was the second highest vacancy rate among full time personnel in the allied health professions at that time.

At the same time, the Board requested the inclusion of the field of Physician Assistant, and requested funding for 10 slots. Based on information provided by the Federal Department of Health and Human Services, the physician shortage in both rural and urban underserved areas was expected to encourage use of Physician Assistants (PAs) and other physician extenders. Physician Assistant utilization in rural areas was further encouraged by the expansion of Medicare Part B coverage to include all physician services provided by PAs in a rural health work force shortage area regardless of practice setting. Changes in the Medicare legislation have fully incorporated PAs into the health care team. Unfortunately, admission offers have not kept up with funding requests in these two fields.

The report suggests that Utah recently designed a program to fund some of its eligible veterinary medicine students at schools nationwide (Page 13).

It should be noted that Utah has not yet funded students nationwide but is hoping to do so beginning Fall 1997. This will be a pilot program in Utah to provide annual support of \$10,000 to veterinary students to offset nonresident tuition charges at any veterinary medical school in the United States. The pilot program calls for six students to be WICHE funded at the regular support fee, and six students to receive \$10,000 stipends to attend any veterinary school. To date, the Utah Certifying Officer reports that six students have received regular WICHE admission offers, and three students have also received admissions offers to WICHE schools but will only receive \$10,000 of support.

It remains to be seen how successful Utah residents will be in receiving admission offers outside the compact. However, should more than six students receive non-WICHE offers, a method for determining who will receive funding must be formulated. The Board plans to carefully monitor Utah's pilot program.

The report suggests that Arizona enter into agreements with other states or individual schools to reduce costs associated with PSEP participation (Page 12-13).

Current WICHE policy strongly discourages a state from contracting outside the compact unless the state's needs are not being met within the compact. WICHE policy states, In fields in which support fees have been found necessary to assure the reservation of sufficient places for WICHE students, bilateral contracts between WICHE states or between WICHE states and states/institutions outside the region are antithetical to the continued viability of the Professional Student Exchange Program. WICHE states are asked to consider the advantages the multilateral program provides all participating states in the long run and to refrain from entering into new bilateral agreements in these fields. Unlike Utah, Arizona cannot make the case that its needs are not being met within the compact.

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- 1 PSEP fields are placed in Category A when the nonresident students admitted are essentially limited by the receiving institutions to WICHE students, and where the support fee paid for each WICHE student is essential to obtain sufficient places to meet the educational policy objectives of the sending states. Fields are placed in Category B when there are sufficient opportunities for admission of nonresidents without special admission preference as a WICHE student. Surveys are conducted periodically to verify the continued placement of fields within a category.

As approved by the Commission (and funded by Arizona):

Category A fields are dentistry, veterinary medicine, occupational therapy, optometry, and osteopathic medicine.

Category B field is physician assistant.

Appendix I

Veterinary Medical Schools
Educational Cost Per Student
1994-95

	Total Instructional Cost	Student #	Cost Per Student
Cornell University	\$25,386,284	321	\$79,085
North Carolina State University	21,685,124	281	77,171
University of California at Davis	32,926,959	474	69,466
Purdue University	12,082,813	242	49,929
Texas A & M University	23,388,376	484	48,323
Michigan State University	18,249,290	394	46,318
Washington State University	14,141,062	319	44,329
University of Illinois	12,744,514	342	37,265
Iowa State University	13,916,407	388	35,867
Colorado State University	18,717,869	523	35,789
Ohio State University	17,847,487	518	34,455

Data provided by the Association of Veterinary Medical Colleges