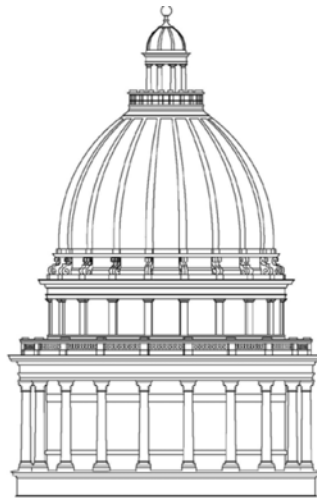


REPORT TO THE
UTAH LEGISLATURE

Number 2018-11



**A Performance Audit of the
Utah Board of Regents**

October 2018

Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah



STATE OF UTAH

Office of the Legislative Auditor General

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JOHN M. SCHAFF, CIA
AUDITOR GENERAL

October 15, 2018

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report, **A Performance Audit of the Utah Board of Regents** (Report #2018-11). A digest is found on the blue pages located at the front of the report. The objectives and scope of the audit are explained in the Introduction.

We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

A handwritten signature in black ink that reads "John M. Schaff" with a stylized flourish at the end.

John M. Schaff, CIA
Auditor General

JMS/lm

A Digest of A Performance Audit of the Utah Board of Regents

The Board relies on the Office of the Commissioner of Higher Education (OCHE) to perform independent analysis on tuition increases; this analysis has not been conducted sufficiently for at least the last five years. Currently, OCHE provides information to the Board that has been requested. We found the Board does not have enough consistency in its goals from year to year to determine its historical progress. The Board can improve its oversight by bolstering the independence of the audit function through following generally accepted audit standards.

Chapter II The Board of Regents Is Not Adequately Controlling Tuition Increases

Board of Regents Conducts Superficial Review of Tuition Increases. The process for developing tuition increase proposals, as overseen by the Commissioner's office, provides little opportunity for the Board of Regents to provide input. Starting with the total increase needed for the legislative compensation match over the past five years, each step of the Commissioner's process built increases into the tuition recommendations:

- Step 1: Initial \$35.6 million legislative compensation match
- Step 2: Uniform tuition increases for all institutions for an additional \$13.5 million
- Step 3: Additional \$52.1 million to meet additional needs of institutions
- Step 4: A final \$30.5 million for specific institutions.

All told, in the last five years, tuition increased \$131.7 million; almost three times what was needed to meet the legislative compensation match. While those increases may have been justified, the Commissioner's staff could not produce any independent validation of the institutions' tuition requests. The Board approved these increases with little documented discussion.

Lack of Analysis by Commissioner Staff May Lead to Unnecessary Tuition Inflation. Tuition increases are inflated through a uniform first-tier tuition policy. First-tier tuition has also been inflated in the past through Commissioner's recommendations resulting from the Council of Presidents. Tuition is further increased by individual tuition requests from the institutions, which are presented with no independent analysis from the Commissioner's staff. We recognize that institutions have funding needs that may require tuition increases. Our concern is that tuition has been increased with minimal independent analysis to support the increases. We recommend institutions' tuition increases be subjected to random, independent analysis to ensure the analyses provided by institutions receive proper oversight.

Chapter III

The Board of Regents Does Not Have Sufficient Metrics to Measure Strategic Outcomes

Metrics Are Not Consistent in Annual Reports. We conducted an analysis to determine how well the Board’s goals are being achieved. We found that Board reporting of its metrics was inconsistent in the years we reviewed (2013-2017). Metrics changed from year to year, reducing the usefulness of the annual reports for measuring system progress. The annual reports themselves were difficult to access and inconsistently identified. We believe the inconsistency in these reports contributed to stakeholders’ confusion concerning the Board’s priorities and its progress in meeting those priorities.

Statutorily Required Institutional Targets Have Not Been Established. The Board has neglected to set institution targets for system metrics as required by S.B. 238, passed in 2017. The statute mandates that the Board set measurable goals and to identify institutional targets feeding into those goals. Specifically, S.B. 238 (now *Utah Code 53B-1-103*) states that: The board shall, for the Utah System of Higher Education, establish measurable goals and metrics and *delineate the expected contributions of individual institutions of higher education toward these goals.*

Chapter IV

Board of Regents Should More Fully Utilize Audit Function

Auditor Independence Should Be Strengthened By Reporting Directly to Board of Regents. The current reporting structure diminishes the independence of the audit function. Independence can be strengthened by reporting directly to the Board. The current USHE internal auditor (USHE auditor) needs to report to the Board to promote independence and to ensure broad audit coverage, adequate consideration of audit communications, and appropriate action on audit recommendations.

Regents Can Bolster the Audit Function Through Risk Assessment and System Audits. The internal audit function at USHE can be strengthened through stronger risk assessment focused on system wide risks and concerns, as well as concerns board members have at individual institutions. Each institution is required to have an audit function focusing on risk at that individual institution; what is missing is an auditor focusing on system-wide risk and checking to ensure board policies and programs are executed. Currently, work done by the USHE internal auditor has been lowered to “review” status instead of full “audit status.” Further, the USHE internal auditor is tasked with additional non-audit duties and is not able to focus strictly on auditing. We acknowledge that there is only a single auditor presently performing audit functions and that system-wide audits have greater complexities and would require greater resources to accomplish. However, a strong board-led audit function can enhance oversight of higher education in the state.

REPORT TO THE UTAH LEGISLATURE

Report No. 2018-11

A Performance Audit of the Utah Board of Regents

October 2018

Audit Performed By:

Audit Manager	Kade Minchey, CIA, CFE
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Chapter I

Introduction

The Board of Regents (the Board) is statutorily required to provide oversight to the Utah System of Higher Education (USHE). Currently, the Office of the Commissioner of Higher Education (OCHE) provides information, such as tuition analysis, to the Board as requested. As staff to the board, OCHE has a responsibility to conduct independent analysis so the Board can make informed decisions. OCHE provides support to the Board's governance of eight institutions within the system of higher education, as well as the Utah Higher Education Assistance Authority (UHEAA) and My529.

The Board is statutorily designated to be the governing entity responsible for oversight of USHE. The Board is charged under *Utah Code* 53B-1-103:

The State Board of Regents shall control, manage, and supervise the institutions of higher education. . .

In addition, the Board has multiple other functions, as shown in Figure 1.1.

OCHE has responsibility to conduct independent analysis so the Board can make more informed decisions.

Figure 1.1. Utah Code 53B-1-103. Code describes the methods by which the board can govern the system.

The Board shall enhance the impact and efficiency of the system of higher education.

The board shall, for the Utah System of Higher Education:
(a) provide strategic leadership and link system capacity to the economy and workforce needs;
(b) enhance the impact and efficiency of the system;
(c) establish measurable goals and metrics and delineate the expected contributions of individual institutions of higher education toward these goals;
(d) evaluate presidents based on institutional performance;
(e) delegate to presidents the authority to manage the presidents' institutions of higher education;
(f) administer statewide functions including system data collection and reporting;
(g) establish unified budget, finance, and capital funding priorities and practices; and
(h) provide system leadership on issues that have a system-wide impact, including:
(i) statewide college access and college preparedness initiatives;
(ii) learning opportunities drawn from multiple campuses or online learning options, including new modes of delivery of content at multiple locations;
(iii) degree program requirement guidelines including credit hour limits, articulation agreements, and transfer across institutions;
(iv) alignment of general education requirements across institutions of higher education;
(v) incorporation of evidence-based practices that increase college completion; and
(vi) monitoring of workforce needs, with an emphasis on credentials that build upon one another.

Source: Utah Code 535-B-103

As the figure shows, the Board is charged with various responsibilities that help provide oversight and governance to USHE.

The Board Receives Support From the Commissioner’s Office

The Board depends on OCHE to provide needed information to make informed decisions. To help the Board understand how the system is functioning, support is provided by OCHE, which is composed of a commissioner and staff. The Commissioner has the following responsibilities:

- Ensure that policies and programs of the Board are properly executed.

- Furnish information about USHE and make recommendations regarding that information to the Board.
- Provide state-level leadership in any activity affecting an institution in the state system of higher education.
- Perform other duties assigned by the board in carrying out its duties and responsibilities.

The commissioner is to provide state-level leadership in any activity affecting the institution in the state system of higher education.

OCHE should be assisting the Board in providing independent analysis throughout the entire system. The Board relies upon OCHE to deliver the necessary information for making informed decisions.

In 2017, OCHE’s administration costs were approximately \$12.4 million. This amount includes the following:

- Personnel costs: \$4.6 million
- Non-personnel costs: \$7.8 million

OCHE employed approximately 43 people in 2017.

The Board Provides Oversight To Eight Institutions

The Board governs a total of eight institutions located throughout the state. Figure 1.2 lists these institutions.

Figure 1.2 Institutional Enrollment for 2017. The University of Utah and Utah Valley University both have over 30,000 students enrolled.

Institution	Headcount
Utah Valley University (UVU)	37,282
University of Utah (U of U)	32,800
Salt Lake Community College (SLCC)	29,620
Weber State University (WSU)	27,949
Utah State University (USU)	27,679
Dixie State University (DSU)	9,673
Southern Utah University (SUU)	9,468
Snow College (Snow)	5,563

Source: Utah System of Higher Education

Figure 1.3 shows the total appropriated amounts for all eight institutions.

Figure 1.3 The Board Is Required to Provide Oversight for Over \$1.8 Billion Appropriated to Higher Education in Fiscal Year 2019. The total appropriated budget includes tuition and other legislative appropriated funds.

FY 2019	Total Appropriated Budget
U of U	\$651,087,300
USU	374,262,800
UVU	246,845,800
WSU	165,287,100
SLCC	164,717,000
SUU	85,982,700
DSU	70,069,200
Snow	44,721,400
Total	\$1,802,973,300

Source: Utah System of Higher Education

The Board is charged with providing oversight of \$1.8 billion.

OCHE gathers budgeting information from each institution. This information should be used to determine tuition and address other systemwide financial issues. The Board is charged with providing oversight of this \$1.8 billion in funds. In the next section, we discuss the methods by which the Board utilizes its authority to govern the system of higher education.

The Board Has Authority to Provide Governance

The Board is responsible to govern the system of higher education and utilizes staff and tools to help manage the system. Figure 1.4 shows the resources they use to provide governance.

Figure 1.4 Statute Has Provided the Board with Tools to Govern the System. The Board can utilize these methods to deliver oversight.

Area	Language
Tuition	The Board may fix the tuition, fees, and charges for each institution at levels the Board finds necessary to meet budget requirements.
Presidential Compensation	The Board shall appoint a president for each institution of higher education: <ul style="list-style-type: none"> • An institution of higher education president serves at the pleasure of the board. The Board shall, for the Utah System of Higher Education: <ul style="list-style-type: none"> • evaluate presidents based on institutional performance.
Facilities	Funding requests pertaining to capital facilities and land purchases shall be submitted in accordance with procedures prescribed by the State Building Board.
Strategy	The Board shall, for the Utah System of Higher Education: <ul style="list-style-type: none"> • provide strategic leadership and link system capacity to the economy and workforce needs; • enhance the impact and efficiency of the system; • establish measurable goals and metrics and delineate the expected contributions of individual institutions of higher education toward these goals. The Board shall submit an annual report of its activities to the Governor and to the Legislature.
Audit	The Board shall control, manage, and supervise the institutions of higher education.
Policy	The Board may enact regulations governing the conduct of university and college students, faculty, and employees.

Source: Utah Code 53B, State System of Higher Education

In the following chapters, we discuss three governance areas that require strengthening, specifically tuition, strategy, and audit.

The Board of Regents Approves Tuition for the System of Higher Education

The most recent compensation adjustments approved by the Legislature for institutions of higher education were funded at 75 percent/25 percent. Specifically, 75 percent is paid through the general education fund, and the remaining 25 percent comes through dedicated credits. Because of this split, the institutions rely on these dedicated credits to meet the 25 percent match, which has generally been done by increasing tuition. The Board is responsible for proposing tuition increases for the system.

The proposed tuition adjustments, which are generally performed annually for all eight institutions, are stated in *Utah Code* 53B-7-101:

The Board may fix the tuition for each institution at levels the Board finds necessary to meet budget requirements.

Compensation adjustments approved by the Legislature for higher education is funded at a 75/25 split.

The Board shall recommend to each session of the Legislature minimum tuitions... for each institution... may fix the tuition... at levels the Board finds necessary to meet budget requirements.

The Board approves a uniform tuition rate, and if the institutions require more than the initial tuition increase, they can request an additional increase. We will discuss both types of increases in the next sections.

First-Tier Tuition Is Uniformly Given

The Board determines the percentage increase in tuition for all institutions each year; this initial increase is called first-tier tuition. First-tier tuition is a uniform increase that is implemented by all institutions at the same time. Figure 1.5 shows the first-tier tuition increases since 2015.

The Board determines a uniform tuition first-tier increase for all institutions at the same time.

Figure 1.5 Uniform Tuition Increases from 2015 to 2019. The year 2019 was the lowest uniform tuition rate.

1st Tier Approved	
2019	1.50%
2018	2.50
2017	3.50
2016	3.00
2015	4.00

Source: Utah System of Higher Education

All the institutions received the same percentage increase. For example, in 2015 all eight institutions' tuition rates were increased by 4 percent.

Second-Tier Tuition Is Institutionally Driven

Institutions may require additional tuition increases to meet institutional needs. Each institutional president, with the approval of the institution's board of trustees, may request a second-tier tuition rate increase to meet these specific needs. Ultimately, the Board of Regents is responsible to approve second-tier tuition increases.

Second-tier tuition is institutionally requested to meet specific needs.

Audit Scope and Objectives

We were asked to review the adequacy of the Board's oversight over the Utah System of Higher Education. We were also asked to address how tuition rates and increases are determined, if tuition rates are properly vetted by all institutions of higher education, and if tuition rate determinations are properly linked to a long-term strategic plan.

- **Chapter II** discusses how the Board and OCHE have managed tuition increases.
- **Chapter III** discusses the Board's strategic leadership for the higher education system.
- **Chapter IV** discusses how the Board's use of audits needs to be improved.

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Chapter II

The Board of Regents Is Not Adequately Controlling Tuition Increases

The Board of Regents is statutorily established to control higher education in Utah, but it does not provide adequate oversight of tuition increases. When tuition proposals reach the Board of Regents, the Commissioner of Higher Education (the Commissioner) and staff are not required to provide analysis on the proposed uses of funds to justify institutions' needs. The Commissioner's processes inflate tuition increases with little analysis to support the rising tuition costs being proposed to the Board.

Starting with the total increase needed for the legislative compensation match over the past five years, each step of the Commissioner's process built increases into the tuition recommendations. From the \$35.6 million compensation match, tuition increased first \$13.5 million, then \$52.1 million, and finally 30.5 million. All told, in the last five years, tuition increased \$131.7 million; almost three times what was needed to meet the legislative compensation match. While those increases may have been justified, the Commissioner's staff could not produce any independent validation of the institutions' tuition requests.

We found a pattern of trust between the Board of Regents, the Commissioner, and the institutions that, while important, appears to have led to tuition increases receiving minimal independent scrutiny. From our observations and interviews with Regents and staff, the Board of Regents appears to have trusted that the Commissioner's staff was adequately vetting all proposals to increase tuition. We could find little evidence to support any rigorous analysis was happening at either the Commissioner's or at the Board of Regents' level.

This lack of rigorous analysis creates a scenario where the Board of Regents was insufficiently involved in tuition increases, leaving the decision to the institutions and the Commissioner. Utah's higher education governance structure will be discussed further in our companion report ILR 2018-D.

As stated in Chapter I, the Board of Regents has been given the statutory responsibility to control, manage, and supervise the Utah

The Board of Regents has been insufficiently involved in tuition increases.

System of Higher Education (USHE). We do not believe it unreasonable that some level of independent financial oversight would be considered part of this responsibility.

Board of Regents Conducts Superficial Review of Tuition Increases

The process for developing tuition increase proposals, as overseen by the Commissioner's office, provides little opportunity for the Board of Regents to provide input. When proposals reach the Board, there is a lack of accompanying information to justify the requested tuition increases. Also, the tuition proposals lack documentation of deliberation by the Board of Regents on the materials they receive. Finally, we could find no instance in which the Board in any way rejected a tuition increase proposal, which is not surprising considering the little analysis they receive. While the Board receives many documents concerning tuition, there is minimal analysis and discussion of the actual proposed uses of tuition increases.

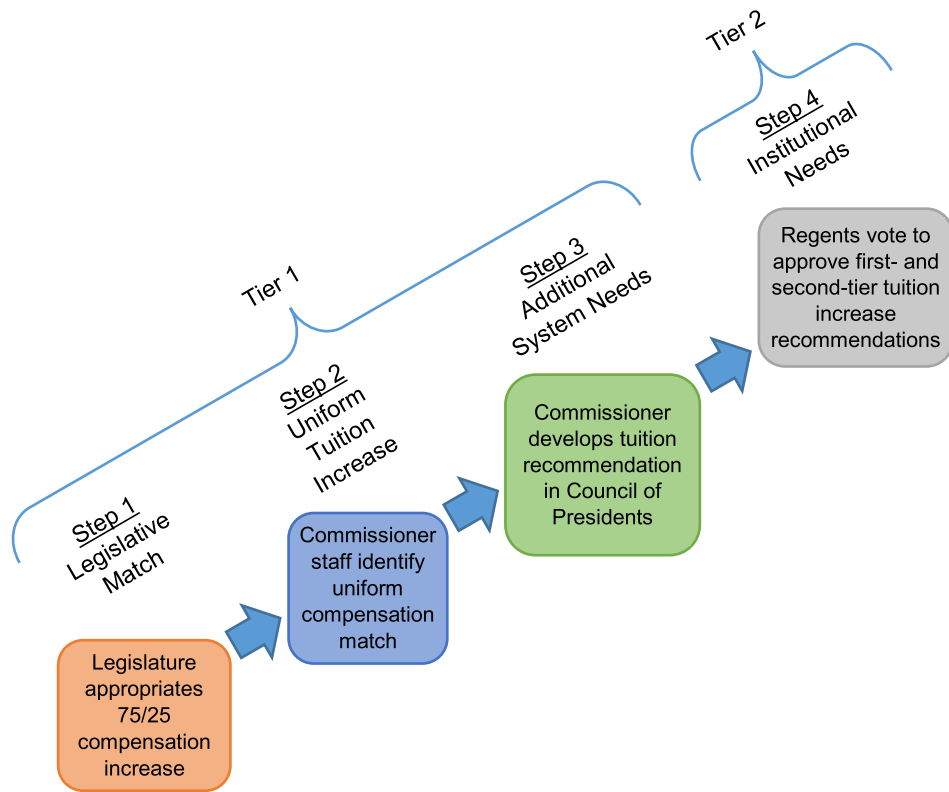
The Process for Developing Tuition Proposals Precludes Input from the Board of Regents

Current legislative practice identifies the compensation increases for higher education that the Legislature will appropriate. The Legislature will fund 75 percent and expects the Board of Regents to identify funding for the remaining 25 percent. For example, for every \$1 appropriated, \$.75 is funded through the Legislature, and \$.25 is through the institutions. Figure 2.1 shows the steps of the process relevant to our tuition review.

We could find no instance in which the Board rejected a tuition recommendation.

Current practice has the Legislature appropriating 75 percent of compensation increases with the institutions making up the remaining 25 percent.

Figure 2.1 Tuition Proposal Process (Including First and Second Tiers*) Removes Opportunity for Input from the Board of Regents. The Board sees the institutions' tuition requests only after the Commissioner and presidents have developed the requests into first- and second-tier proposals.



Source: Commissioner staff
 * First-tier tuition is a system-wide uniform tuition increase; second-tier is an additional tuition increase requested by the institution

The Commissioner's office takes four main steps in determining its tuition recommendations.

In practice, the Commissioner's staff identify the tuition increase rates necessary to meet the match for each individual institution. Staff then identify the single-highest rate, which is applied uniformly to all the institutions. In other words, the institution with the largest percentage need becomes the baseline, and the other institutions receive more than they need to meet the legislative match. For example, the Commissioner's staff identified 1.5 percent (after rounding) as the lowest increase necessary to meet all institutions' matches for 2019. That resulted in every institution but Snow College receiving a larger tuition increase than needed to meet the legislative compensation match. For more information see Figure 2.3.

We question a Council of Presidents where tuition increases are decided without input from the Board of Regents and without records maintained

The Commissioner then uses the uniform tuition increase as a starting point to determine a first-tier tuition increase recommendations with input from the Council of Presidents (COP). The COP identifies other institutions' needs in addition to the compensation match, potentially including those needs in the first-tier tuition increase. For example, after the COP for budget year 2018, the recommendation increased an additional 1 percent on top of the 1.5 percent (after rounding) necessary for a uniform tuition increase. For more information see Figure 2.4.

The percentage increase identified in the COP is used to mark the first-tier tuition increase that will be proposed to the Board of Regents. After the proposed tuition increase has been established, institutions identify how the increases will be used and decide the amount of additional tuition increases they need through a second-tier request. The institutions' proposed uses of the tuition increases are then consolidated by the Commissioner's staff and provided to the Board as a unified request for approval.

Unified proposals from the Commissioner and the institutions with little supporting analysis do not encourage Board discussion.

The single, unified tuition proposal developed from the COP leaves the Board of Regents with little room for discussion, because the proposals lack appropriate justification or supporting documentation showing how tuition increases will be used. These proposals also lack any alternatives for the Board to consider in weighing which increases will be appropriate.

Board of Regents members do not participate in, or even attend, COP meetings. In our opinion, the Board should consider whether it will permit the Commissioner to negotiate tuition increases with institution presidents without Regent involvement.

We believe the single, unified proposals developed in the COP have contributed to Board of Regents decisions that are often based on trust rather than on a considered weighing of institutional needs and priorities. In fact, Regents themselves have complained that current processes provide little opportunity for Board involvement. One Regent was quoted as saying that, in the future, they "must spend more time debating, and exploring issues, instead of simply 'rubber stamping' the issues."

The Board of Regents Receives Information but Lacks Detail And Analysis on Proposed Uses of Funds

Currently, the Board of Regents receives a packet of information each year on proposed tuition increases. In practice, the packet identifies the tuition increase proposal, with two pages of detail on how the tuition increases will be used at each institution. For example, one institution provided the following level of analysis for the 2018-19 school year:

- Student Success Infrastructure—\$4,000,000
- Innovative Education Delivery and Enhancement—\$2,000,000
- Strategic Faculty Excellence—\$600,000

Outside of these short descriptions, the Board of Regents is given no additional information in its meeting materials to gauge the necessity or importance of the funding proposals. We found this lack of data was consistent across the past five years of packets we analyzed.

Most years' packets include a document describing the required legislative match compensation amounts for the institutions. The packets also contain 20 to 60 pages of documents unrelated to any analysis of how tuition increases will be used by the institutions. These documents contain the following:

- Proposed dollar increases for undergraduate and graduate resident and nonresident students
- Regional tuition and fee comparisons for undergraduate and graduate students
- Consumer Price Index and Higher Education Price Index
- Regional and USHE percent increases over time
- Institutional tuition by credit load for undergraduate and graduate students
- Differential tuition requests

All of this information helps provide context for the proposed tuition increases, but it does little to help the Board of Regents understand whether the funding requests are critical enough to justify the proposed tuition increases.

Tuition increase recommendations contain only short descriptions on how new funds will be used.

The Board of Regents Holds Little Discussion on Proposed Tuition Increases

We also found that in all but one of the past five years, there was no discussion by the Board of Regents on the tuition proposals prior to the Board's vote. For example, in March 2018, not one person commented on or questioned the proposal put forth by the Commissioner and the presidents. That lack of discussion appears to have been the pattern for the past five years, with the exception of 2017. In 2017, presidents were asked to talk about their second-tier tuition proposals.

We would expect to see robust hearings, as in the Legislature, concerning any serious funding request, especially those that will require monetary commitment from students. The Legislature requires state agencies to make presentations to their appropriations committees on their needs and how any additional funding will be used.

Statute gives the Board of Regents authority to examine and discuss any tuition increase and we believe each institution's tuition increases should be examined in the future. Institutions could be required to present their funding needs and give the Board an opportunity to engage in healthy discussions concerning what needs or initiatives should be funded.

In the Five-Year Period Reviewed, the Board of Regents Never Rejected a Tuition Proposal

We could not document any instance in the past five years when the Board altered or rejected a tuition proposal from the Commissioner's staff. Further, the Commissioner told us that in his years of employment within higher education governance, the Board of Regents has never reduced or rejected a proposal. The Commissioner said this was because his recommendation was grounded in strong analysis prior to presenting proposals to the Board. In addition, strong analysis by the institutions or their boards of trustees was cited by some Regents we interviewed as being the reason why no proposals were altered or rejected. Through conversations with the Commissioner's staff and through our own work, we could not identify any strong, independent analyses of tuition requests by the Commissioner's office. For more on staff analyses, see pages 15-22 of the report.

The Board should hold robust hearings, requiring institutions to present on their tuition requests.

To facilitate discussion and serious review, the Board of Regents should receive multiple funding scenarios for each tuition recommendation, coupled with analysis of the merits of each scenario. The scenarios could provide verifiable analysis as a basis for robust discussion around what institutional needs and initiatives are worth increasing student costs. Such scenarios could also serve to reduce the need for the Board to simply trust what the Commissioner's staff and the institutions are telling them. We also suggest Board hearings with the institutions justifying their requested tuition increases.

The Tuition Approval Process Raises Higher Education Governance Questions

Based on the records we reviewed in the preceding analysis, Board of Regents approval of tuition proposals appears to be a foregone conclusion. We were told the Board comfortably approves tuition increases because Regents trust that the Commissioner's staff, boards of trustees, and the institutions themselves have already appropriately vetted the proposals. If vetting by these bodies is truly sufficient, and the Board of Regents' oversight is not needed to control, manage, and supervise USHE funding, this would raise concerns about which body is actually governing the system. In our companion report on USHE governance (ILR 2018-D), we address process questions relating to system governance.

If institutions' tuition processes did not require oversight, the Board's role would not be needed.

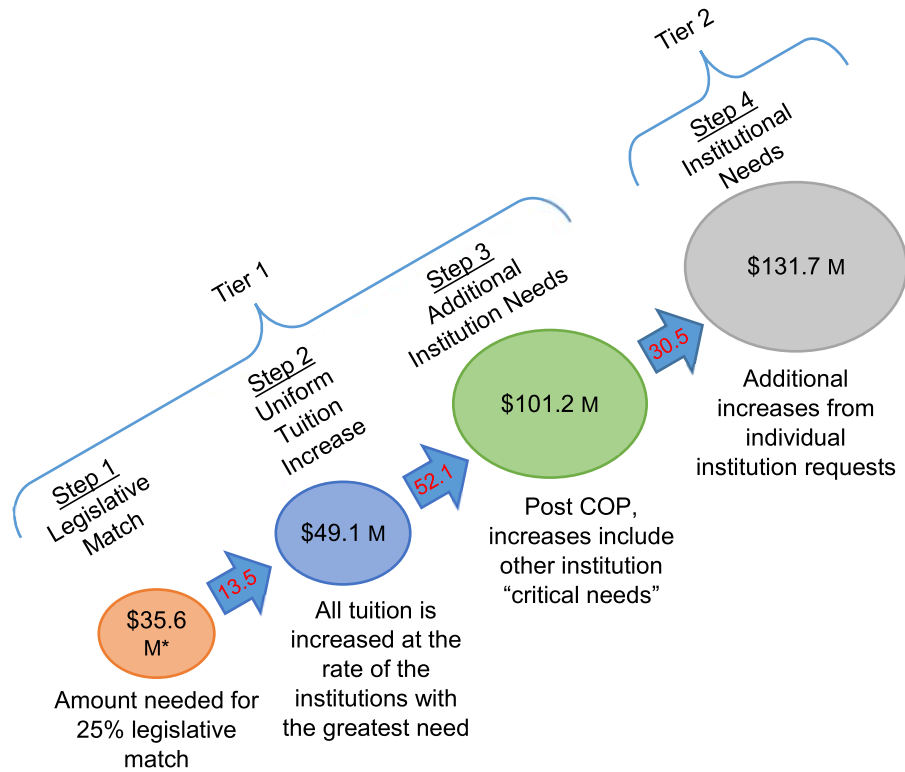
Lack of Analysis by Commissioner's Staff May Lead to Unnecessary Tuition Inflation

Tuition increases are inflated through a uniform first-tier tuition policy. First-tier tuition has also been inflated in the past through Commissioner's recommendations resulting from the COP. Tuition is further increased by individual tuition requests from the institutions, which are presented with no independent analysis from the Commissioner's staff. We recognize that institutions have funding needs that may require tuition increases. Our concern is that tuition has been increased with minimal independent analysis to support the increases. We recommend institutions' tuition increases be subjected to random, independent analysis to ensure the analyses provided by institutions receive proper oversight.

The Commissioner's tuition proposals have four significant steps, each ultimately contributing to larger and larger tuition

recommendations. Figure 2.2 shows how tuition has inflated past the legislative match over the past five years.

Figure 2.2 Over the Past Five Years, Tuition Increases Have Grown to Almost Three Times the Legislative Appropriation Match. The amounts shown are the cumulative, budgeted tuition increases for the past five years. After Step 1, each step of the process lacks independent oversight.



Source: Commissioner's staff
 *Includes \$561,000 for Internal Service Funds

Tuition increases over the past five years are almost three times what would have been supported by only the Legislative compensation match.

As shown above, over the past five years, USHE tuition increases have multiplied well past any appropriation match to meet legislative compensation increases. Again, we did not audit to determine if these tuition increases were necessary, but we could find no evidence of the Board of Regents or the Commissioner's staff conducting any such independent analysis.

We recognize that system needs may have been such that some or all of the \$132 million shown in Figure 2.2 was vital, and to be clear, we did not have time to independently analyze the necessity of institutions' past funding requests. However, the Commissioner's staff

is tasked with conducting the analysis that the Board of Regents cannot, and we could not identify any independent analysis performed by staff, nor could staff show us any such independent analysis on past funding requests.

The lack of such analysis also highlights assertions we heard throughout the audit claiming Utah has some of the lowest tuition in the country. Comparatively low tuition does not absolve the Board of Regents of its oversight responsibilities. Also worth noting is that during this period (USHE 2015-19 budgets) the Legislature committed over \$217 million in additional ongoing and one-time appropriations to fund the system.

Some Staff Told Us Tuition Increases Were Required to Meet the Legislative Match

Historically, the Commissioner’s staff have used the 75/25 percent match as justification to increase tuition to fund its portion of the match. Staff told us repeatedly that the match was a legislative requirement to increase tuition. Understandably, raising tuition to meet the 25 percent match is a reasonable solution, but it is not the Board of Regents’ only option.

The Legislature has not required that the 25 percent compensation match be met by tuition increases. Rather, the requirement is for the Board of Regents to use dedicated credits to meet the match. Dedicated credits are sources of funding like fees and tuitions charged by agencies for use in their budgets. We understand tuition is the largest dedicated credit available to institutions and the most likely source of funding to increase to meet the 25 percent match. However, we believe institutions should justify the need for any tuition increase, including increases to meet the legislative compensation match. Also, Board staff could be used to conduct random, independent testing to ensure institutions are adequately representing their needs.

Uniform Process Increases Appear Unnecessary and Inflate Tuition Proposals

The Commissioner’s tuition process identifies what tuition increases each institution needs to meet a 25 percent appropriations match. Because each institution has a different funding mix between state and tuition funds, the legislative compensation match will look different for each institution. In other words, the institution with the

Step 1
Legislative
Match

\$35.6 M

Institutions should provide analyses justifying any tuition increases, including increases to meet Legislative compensation matches.

Step 2
Uniform
Tuition
Increase

\$49.1 M

highest need becomes the baseline, and the other institutions receive more than they need to meet the legislative match. This practice resulted in \$13.5 million in tuition increases over the past five years. The practice of uniform first-tier increases is required by Board of Regent policy, which states:

A first tier tuition rate increase shall be uniform for all institutions...

Figure 2.3 provides an example of how this analysis was conducted for the upcoming 2018-19 school year.

Figure 2.3 Board of Regents Policy Inflates First-Tier Tuition Increases Past the Match for All but One Institution Every Year. Snow College was used as the anchor to identify a uniform increase that would (almost) meet percentage match needs for all institutions. Consequently, the Board of Regents increased tuition for 2019 by almost **\$3.1 million** more than the match.

2019	Increase Needed for Match	Dollars Needed for Match	Actual Uniform Legislative Match Increase	Actual Dollars Approved	Difference Between Amount Needed and Approved
Snow	1.53%	\$177,595	1.50%	\$173,747	\$(3,848)
SLCC	1.35	799,180	1.50	890,083	90,903
DSU	1.21	362,774	1.50	447,900	85,126
WSU	1.20	880,285	1.50	1,100,326	220,041
USU	1.12	1,653,330	1.50	2,217,015	563,685
UVU	1.07	1,343,223	1.50	1,886,939	543,716
UofU	1.06	3,319,322	1.50	4,706,985	1,387,663
SUU	1.03	443,131	1.50	642,644	199,513
Total	1.20%	\$8,978,840	1.50%	\$12,065,639	\$3,086,799

Source: Commissioner's staff

As shown in Figure 2.3, the Commissioner's staff practice of identifying uniform tuition increases gives all but one institution more than the match amount. The uniform match for 2019 produced about \$3.1 million dollars more than was necessary to meet the match.

Given the inherent problems in uniform increases, we question the usefulness of a Board policy that requires uniformity. Such a policy appears to give increases to most institutions without requiring any analysis as to why those increases are needed. Institutions should be required to make a case before the Board of Regents for all increased

The uniform 1st tier requirement provides unjustified increases to all but one institution

tuition requests. We have seen no advantage to giving a uniform tuition increase that benefits all but one institution.

Resulting from COP Meetings, Tuition Recommendations Increase Further But Lack Documentation

After the Commissioner’s staff identify the match percentage, the Commissioner calls a Council of Presidents (COP) meeting to discuss the first-tier tuition increase. Resulting from that meeting, first-tier tuition has historically increased well above what would be required for a match. Over the past five years, first-tier tuition recommendations increased \$52.1 million resulting from COP meetings. Figure 2.4 shows how the Commissioner’s recommendations have increased first-tier tuition past legislative appropriation in all but one year.

Step 3
Additional
Institution
Needs

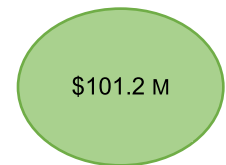


Figure 2.4 Tuition Increase Recommendations Resulting from the COP Include More than the Uniform Match. On average, the increases resulting from the COP are more than double the uniform match and lack any documentation on how they were reached.

Year	1 st -Tier Uniform Match	Dollars in Excess of Legislative Match	Difference Resulting from COP	1 st -Tier Approved	Dollars in Excess of Uniform Tuition Increase
2019	1.53%	\$3,353,995	(0.03)%	1.50%	\$(267,196)
2018	1.46	2,797,067	1.04	2.50	7,799,655
2017	1.42	2,574,614	2.08	3.50	14,789,725
2016	1.41	3,123,363	1.59	3.00	10,699,079
2015	0.98	1,685,762	3.02	4.00	19,082,797
Average	1.36%	\$2,706,960	1.54%	2.90%	\$10,420,812

Source: Commissioner staff

The Board of Regents’ first-tier tuition percentage increases were more than double what the appropriation match would have entailed in 2015, 2016, and 2017.

No minutes are kept of COP meetings, so we cannot say how those meetings influence changes in first-tier tuition proposals. Since no Regents are invited to participate in the meetings, they are further removed from providing input during the proposal process. We heard

We could not identify any analysis behind increases resulting from COP meetings.

from staff that the COP meeting is essentially a discussion of what the presidents want, and what the Commissioner is willing to give.

We conducted a thorough review of the last five years of Board of Regents' materials concerning tuition increases and could only find one page (in each year except 2015) listing the actual dollars needed for the compensation match. Not included on that page is any comparison of legislative match numbers and actual increases being proposed. The lack of a clear comparison makes it more difficult for the Board to analyze the difference between the match and additional increases.

When making recommendations to the Board of Regents, the Commissioner states that the first-tier recommendation will go toward meeting the appropriation match, but he adds a caveat that some dollars "may be used for other critical operational needs". Figure 2.4 shows that the majority of first-tier tuition dollars appear to be going to these "critical operational needs." As previously discussed, the justifications for these operational critical needs have not been any more than one-line descriptions vaguely describing how the dollars will be used (e.g. compensation).

Second Tier Tuition Increases Are Not Analyzed by Staff

Essentially, the Commissioner's staff consolidates the institutions' requests into one 2nd tier tuition proposal for the Board of Regents' approval. Second-tier tuition is the tuition rate increase to meet specific institutional needs if they feel they cannot meet all their needs with the uniform first-tier increase. In the past five years, institutions have requested an additional \$30.5 million in tuition increases. According to staff, the Commissioner's office does not attempt to influence the institutions in the amounts they request.

Nothing we found during the course of the audit suggests that the Commissioner's staff were conducting independent analysis of institutions' second-tier tuition needs. That was reinforced by statements from staff that they were not conducting their own independent analysis of the requests, or for that matter, any in-depth analysis of the institutions' own analyses. To be clear, we recognize institutions have their own processes for identifying and approving tuition increases, one step of which is to hold public hearings any time they consider increasing tuition. Nevertheless, tuition increases are the

Step 4
Institutional
Tier 2

\$131.7 M

We found no independent analysis of institutions' tuition requests.

statutory purview of the Board of Regents, and if the Board is to adequately oversee tuition, it must be provided the appropriate level of analysis. Board of Regents and institution governance dynamics are discussed more in-depth in our companion report on higher education governance (ILR 2018-D).

Figure 2.5 shows all second-tier funding for the past five years for each institution.

Figure 2.5 The Board of Regents Has Approved over \$30 Million in Second-Tier Increases Since 2015. The University of Utah and Utah State University have accounted for 87 percent of second-tier tuition increases in the past five years.

(In Millions)						
Institutions	2015	2016	2017	2018	2019	Total
UofU	\$4.37	\$1.30	\$1.10	\$4.28	\$7.60	\$18.65
USU	1.54			3.09	2.84	7.48
WSU				0.71	0.74	1.45
SUU						0.00
Snow	1.25					1.25
DSU			0.39	0.69	0.60	1.68
UVU						0.00
SLCC						0.00
Total	\$7.16	\$1.30	\$1.49	\$8.77	\$11.78	\$30.51

Source: Board tuition recommendation meeting materials

Figure 2.5 shows that some institutions did not request second-tier increases in any of the five years shown, while others consistently requested additional funds. The \$30.5 million increase in tuitions were not independently validated by the Commissioner’s staff. The University of Utah and Utah State University, in particular, drove the majority of second-tier increases, accounting for 86 percent of all second-tier increases in the past five years. Conversely, those two schools account for only 57 percent of all USHE funding in its 2019 budget. The relationship between the University of Utah’s and Utah State University’s total tuition increases versus second-tier increases is shown in Figure 2.6.

The University of Utah and Utah State University account for 87 percent of all 2nd tier tuition increases.

Figure 2.6 Two Institutions Had Larger Second-Tier than First-Tier Requests. For both the University of Utah and Utah State University, second-tier tuition made up the majority of their 2019 tuition increases.

2019	First-Tier		Second-Tier		Total		2 nd Tier % of Total
UofU	1.50%	\$4,706,985	2.42%	\$7,600,000	3.92%	\$12,306,985	62%
USU	1.50%	\$2,217,015	1.92%	\$2,844,000	3.42%	\$5,061,015	56%

Source: USHE

The consistent increases in tuition raise the question of what is driving these increases. In fact, the Board of Regents Chair posed the same question in a recent Board meeting regarding tuition increases. According to Board minutes, the Chair “stated it may be good to know from Presidents next year in advance of tuition increases what issues are driving costs up.”

We suspect the lack of independent analysis may be a factor in the rising tuition costs. When asked what kind of vetting is conducted on the institutions’ tuition requests, a member of senior management told us that Commissioner staff perform no independent analysis, either on the reasonableness of the requests, or the accuracy of the numbers provided by the institutions prior to the Board of Regents’ approval. The senior management member also told us they do not determine whether institutions spent past tuition increases on the institutions’ reported needs. In addition to staff’s statements, we were unable to find any indication of independent analysis on tuition increases being conducted by the Commissioner’s staff.

Recommendations

1. We recommend that the Board of Regents, when approving tuition increases, require the Commissioner’s staff to provide multiple tuition scenarios with thorough analysis of what priorities would be funded under each scenario.
2. We recommend that the Board of Regents require Board staff to perform periodic random testing of institutions’ tuition request data.
3. We recommend that if the Board of Regents continues to allow the Council of Presidents to review all materials before being

reviewed and approved by the Board, the Board of Regents should change policy to require minutes be kept at Council of Presidents meetings.

4. We recommend that the Board of Regents require all institutions' tuition increases to go through both institution and public review, as well as public hearings at the Board of Regents level where individual institutions present their needs and provide analysis, support, and justification for tuition increases.

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Chapter III

The Board of Regents Lacks Sufficient Metrics To Measure Strategic Outcomes

We conducted an analysis of the Board of Regents' (the Board's) annual/strategic reports to determine the historical progress of the Board's goals and strategies for the Utah System of Higher Education (USHE). We found the Board does not have sufficient consistency in their year-to-year goals to determine whether historical progress has occurred. In short, we found that the Board lacks strategic focus in its reports and that the information needed to determine historical progress of the Board's past goals is lacking. This unclear strategic focus appears to have led to stakeholder confusion about the Board's priorities. Many stakeholders we spoke with, along with comments captured in consultants' reports, demonstrate a general lack of understanding of the Board's focus and strategies.

The Board also tracks and reports data through its annual Data Books and through dashboards on its website, but those data do not provide clear and easily accessible insight on the Board's priorities or its progress in meeting those priorities. Board priorities are reported in its annual reports which are required by statute to provide information on the Board's activities. Those reports could be bolstered to provide performance reporting useful to decision makers. The Board has recently been working to improve their goals and strategic planning.

We recommend that the Board annually report measurable goals and metrics for USHE, including institutional targets for these metrics. Goals and measures should be consistent year to year to allow for USHE progress to be accurately measured. This recommendation would help the Board comply with Senate Bill 238 (SB 238), passed in the 2017 general session. To date, the Board is not adequately complying with statute on institutional targets.

While the Board reports data through other means, its annual report should provide consistent reporting on Board priorities and progress.

Metrics Are Not Consistent In Annual Reports

We conducted an analysis of the Board's annual reports to determine how well the Board's goals are being achieved and found that Board reporting of its metrics was inconsistent in the years we reviewed (2013-17). Metrics changed from year to year, reducing the usefulness of the annual reports for measuring system progress. The annual reports themselves were difficult to access and inconsistently identified. We believe the inconsistency in these reports contributed to stakeholders' confusion concerning the Board's priorities and its progress in meeting those priorities.

Metric Reporting Has Been Inconsistent

The Board and Commissioner staff have been inconsistent in metric reporting over the past five years. Between 2013 and 2017, the Board reported on 28 metrics across multiple years of its annual/strategic reports, but none of those metrics were reported consistently for all five years. We counted anything as a metric that was quantifiable and included the year being reported. Also, while the Board reported on many other metrics for only one year, our analysis here focuses only on the 28 metrics that were reported in two or more years. Ultimately, we found such broad inconsistency between metrics that we had difficulty tracking USHE progress throughout the five years.

The purpose of a metric in an annual report should be to identify an organization's progress in the area tied to that metric. If metrics are not reported consistently, decision makers have difficulty identifying what progress has been made. For example, the Board reported on total USHE fall enrollment, but only in two of the past five years. Granted, the Board reports many data points in its Data Books and gives a variety of metrics in its annual reports. However, despite all those metrics, it was not clear to us which were simply incidental factoids and which were actually tracking progress toward Board goals.

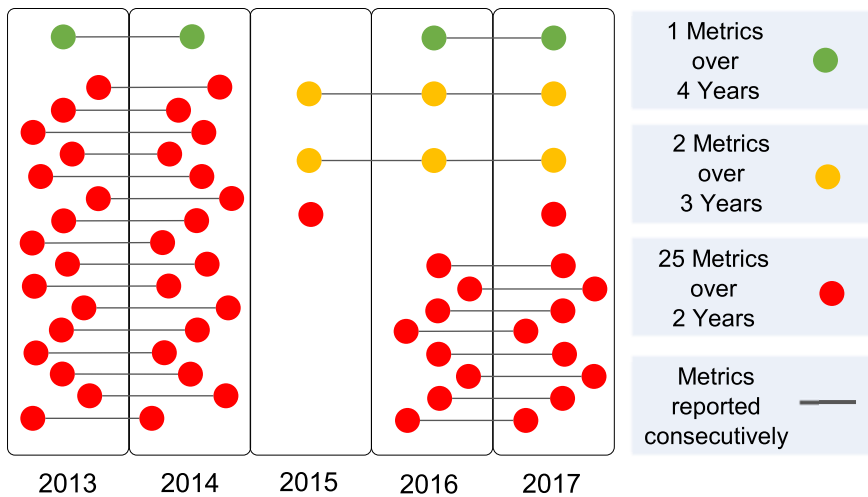
We found that the metrics in our analysis were reported so inconsistently that the large majority were reported only twice. Specifically,

Many metrics have been reported in annual reports, but none have been reported consistently across the last 5 years.

- 25 out of 28 were reported twice,
- 2 out of 28 were reported three times,
- 1 out of 28 was reported four times, and
- 0 out of 28 were reported five times (or each year).

Figure 3.1 shows the frequency that metrics were reported across annual reports as well as which metrics were reported in consecutive years.

Figure 3.1 Annual Reports Are Inconsistent in the Metrics Given. Dots represent metrics reported in the years shown. Dot color indicates how frequently the metrics were reported, and lines show the metrics that were reported consecutively. The majority of metrics (25 out of 28) were reported only twice.



Sources: Higher Ed 2020 2013 Report, Higher Ed 2020 2014 Report, 2025 Strategic Plan, USHE 15-16 Annual Report, 2017 Progress Report

As the figure above illustrates, metrics are not reported consistently. The most consistent metric reported was the number of degrees/certificates awarded, which was reported four times over a five-year period. The two metrics identified by the Board in the reports as most important to its priorities were (1) the percent of high school graduates enrolling in college within 5 years, and (2) awards (degrees and certificates) per 100 full-time equivalent student. Both those metrics were reported consecutively over three years. While those metrics were clearly identified as feeding into priorities, the Board reported many other metrics which were not clearly identified. That lack of clarity made it difficult for us to identify which, if any, of the other metrics being reported were even important to the Board.

Most metrics reported in our review of the Board's annual reports were reported only twice.

Examples of other potentially useful metrics that were reported only once or twice were:

- Percentage of freshmen graduating within 150 percent of time
- Percentage of students taking out student loans
- Percentage increase in Regents' Scholarship recipients
- Percentage of USHE students receiving gift aid

The metrics' inconsistency, combined with the sheer number of unique metrics reported in most years, makes evaluating progress difficult. For example, only 10 metrics were reported in 2015 (3 of which were reported across multiple years), while 82 were reported in 2016 (11 of which were reported across multiple years). Reporting metrics consistently across multiple years would be more likely to facilitate high level understanding by stakeholders.

The need for consistent measures is reinforced by the Government Accounting Standards Board (GASB) and others. GASB guidance¹ states that "performance information should be reported consistently from period to period to allow users to have a basis for comparing performance over time..." Another public sector guide² counseled that metrics should be sufficiently consistent to gain a complete picture of programs' effectiveness. The guide also stated that significantly altering performance metrics year after year inhibits organizations' accountability.

Board Annual Reports Are Inconsistently Identified

Annual reports on the Board's activities are required by statute. *Utah Code* 53B-1-107 states, "The Board shall submit an annual report of its activities to the governor and to the Legislature and shall provide copies to all institutions in the state system of higher education."

When we asked Commissioner staff for the Board's annual reports (after our own unsuccessful search), they had difficulty finding the reports and even identifying the reports that we were seeking.

¹ Government Accounting Standards Board, Performance Reporting for Government, *Characteristics Performance Information Should Possess*, adapted from GASB Concepts Statement No. 2, Service Efforts and Accomplishments Reporting.

² Local Government Auditing Quarterly, *Performance Measurement – Focusing on Program Results* Summer (2012).

Ultimately, staff provided us reports that were used to meet the annual reporting requirement; only one of these documents had the words *annual report* in the title. The other reports had the following names:

- Higher Ed 2020 Reports
- Progress Report
- Utah State Board of Regents Strategic Plan 2025

Inconsistent and unclear annual reports may have contributed to a lack of understanding among stakeholders about the Board's priorities. Board consultants reported a lack of clarity from legislators as to the Board's strategic focus. For example, in a 2018 performance evaluation report commissioned by the Board to learn and understand areas where they can improve on communication strategy,³ Board consultants quoted legislators as saying,

I don't know what USHE does. I don't think they know what they do.

I don't know what the Board's current priorities are. I know they want more money, but I couldn't tell you what their higher vision/purpose is.

Since the consultant's report in early 2018, the Commissioner's staff told us they have put significant effort into goals and strategic focus. However, we believe our report and the consultant's report validate the concerns reported in this chapter. In fact, similar concerns were raised by a separate group of Board consultants. In a 2018 report to the Board, the consultants observed the following:

The Regents also adopted a strategic framework centered around three themes (affordable participation, timely completion, and innovative discovery) but most of those interviewed did not see this as guiding institutional or system initiatives to any large extent.

According to the Board's own consultants and on separate occasions, stakeholders have had difficulty identifying how the Board is guiding the system of higher education.

³ Cicero Data Driven Strategy, *USHE: Research Project Update* (February 2, 2018).

Legislators reported confusion about the Board's priorities.

Well-articulated and measurable objectives with annual targets provide a basis for assessing organization progress in meeting goals.

Consistent and clear annual reports on USHE performance may help provide the clarity many stakeholders appear to be lacking. Kansas Board of Regents' (Kansas) annual reports are an example of clear and consistent reporting. Kansas reports annually on its three priority goals and their related metrics. These reports show that each metric feeds into one of the three priority goals. The reports also include past years' performance along with, in at least some cases, targets for future performance.

A government best practices guide⁴, sponsored in part by the National Conference of State Legislatures (NCSL), reinforces practices like those from Kansas. The guide states that "Well-articulated and measurable objectives provide a basis for setting annual targets and for assessing the extent to which the organization is meeting its goals." Any priority set by the Board should include metrics that will help the Board identify progress.

Regents themselves shared concerns with Board consultants regarding the quality of performance reporting. One Regent was reported as telling the consultants the following:

We could do a better job of having dashboards of the system's performance and each institution (financial and academic) to help us identify issues and advance the state of education in Utah.

Annual reports can use dashboards to briefly and intuitively display an organization's performance. According to Commissioner staff, online dashboards have been used by the Board since 2014, but the dashboards have not been clearly tied to Board priorities. Dashboard reporting, if consistent and clearly tied to Board strategic priorities, could provide the Board, the Legislature, and the public with better tools for identifying system progress.

Federal agencies have an annual performance reporting requirement in statute. In addressing the statute's reporting requirements, the Government Accountability Office (GAO) stated that regular performance reports, posted online, "make performance

⁴ National Performance Management Advisory Commission, *A Performance Management Framework for State and Local Government* (2010).

information more accessible and easy to use by stakeholders and the public, thus fostering transparency and civic engagement.”

We believe the concerns reported by Board consultants can be addressed by clear and effective strategic annual reports. The reports should provide consistent updates on system priorities, metrics, and targets. Also, the reports should be conspicuously identified and placed so that decision makers and the public can easily access them.

Statutorily Required Institutional Targets Have Not Been Established

The Board has neglected to set institutional targets for system metrics as required by S.B. 238, passed in 2017. The statute mandates that the Board set measurable goals and identify institutional targets feeding into those goals. Specifically, S.B. 238 (now *Utah Code* 53B-1-103) states:

The Board shall, for the Utah System of Higher Education... establish measurable goals and metrics and ***delineate the expected contributions of individual institutions of higher education toward these goals.*** (emphasis added)

The Legislature passed this bill in 2017, and it went into effect July 1 of that year. For the almost 18 months since the bill’s passing, the Commissioner has not been able to provide sufficient evidence to show the Board has followed statute. For example, we would expect to see clearly identified measurable goals based on Board priorities followed by metrics and targets for USHE as a whole, with institutional metrics and targets feeding into the broader USHE metrics. The Board has not yet established institution-specific targets for meeting system goals, nor has it set clear measurable goals, metrics, and targets for each of the Board’s priorities. Since our audit began, the Commissioner’s staff have acted to define a set of clear system goals and metrics, but the Board has not yet approved them.

The Board has taken some action to identify system priorities since the bill’s passage, but that action has been insufficient to meet statutory intent. In November 2017, four months after the statute became effective, the Board formed working groups to identify initiatives that might be most impactful to the Board’s priorities.

State statute requires the Board to set institution targets to meet system goals.

**Institution presidents
have resisted targets
proposed by
Commissioner staff.**

Neither the Board nor Commissioner staff have provided us with anything from the working groups to show progress in meeting the statutory requirement for institutional targets.

Board consultants in the 2018 performance evaluation report described dissatisfaction from legislators regarding the lack of specific metrics for institutions. The consultants quoted the following concerns shared with them by state leaders:

The system could do a better job of measuring outcomes and holding institutions accountable for well-defined core missions and activities.

Show me increased retention rates, completions, etc. I want to see outcomes. I want to see where [the] institution was vs. where they are today.

I would like the Board to require institutions to produce more [numbers] on efficiency. I would like to measure output and cost of output.

Some institutions have resisted being measured. In meetings we attended, some presidents objected to moves by the Board or the Commissioner to establish institutional performance targets in any area. One president expressed that if the institutions were held to performance levels, the Legislature would expect them to meet those standards regardless of the various constraints of the institutions. Even so, the Legislature has given the Board the ability and the mandate to set goals, metrics, and institutional targets with or without support from the presidents.

In practice, Board priorities should be supported by clear performance metrics and annual targets and recorded in its annual reports. Where practicable, the annual reports should also include institution-specific targets that will help the Board meet its system targets.

Recommendations

1. We recommend that the Board of Regents set specific and consistent metrics for each system priority and annually report the performance of those metrics. Included with each metric

should be the past performance of that metric. The reports should also be clearly (and consistently) identified and accessibly located.

2. We recommend that the Board of Regents comply with statute to set performance targets for each institution (based on system targets) and to report on institutional performance annually.

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Chapter IV

Board of Regents Should More Fully Utilize Audit Function

The Board of Regents (the Board) can improve its oversight of the Utah System of Higher Education (USHE) by bolstering the independence of the audit function through following generally accepted audit standards. Under the current reporting structure, the Board auditor reports three layers deep within the organization. While state statute does not explicitly require the Board to have an independent audit function, we believe it could greatly enhance the Board's ability to carry out its statutory responsibility to control, manage and supervise the USHE system.

Once the auditor has proper organizational placement the Board should then bolster the audit function through robust risk assessment and system-wide audits. Currently missing is an audit function controlled and driven by the Board that reviews system-wide risks and responds to the concerns of Board members at individual institutions. We recognize that there is only one USHE auditor at this time and that system-wide audits have greater complexities and would require additional resources. A strong Board-led audit function that can focus on robust risk analysis is essential for strong governance and greater control of the higher education system.

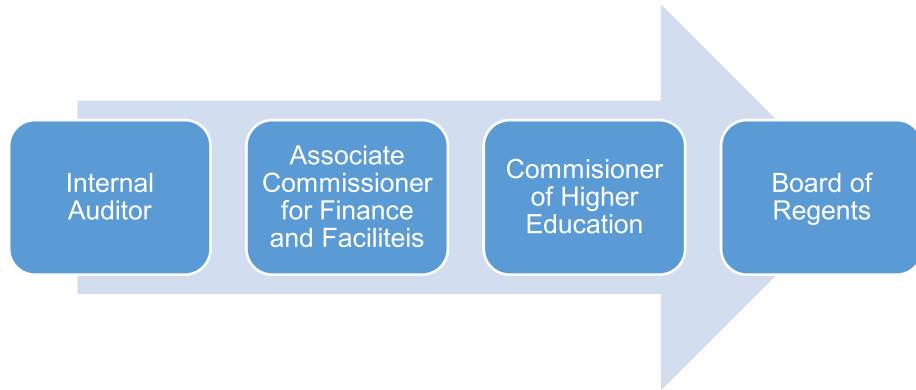
Auditor Independence Should Be Strengthened By Reporting Directly to Board of Regents

The current reporting structure diminishes the independence of the audit function. Independence can be strengthened by reporting directly to the Board. Figure 4.1 shows the reporting relationship between the current internal auditor and the Board.

Currently the auditor is three layers deep in the reporting structure of the organization.

A strong board-lead audit function which can focus on risk analysis is necessary for strong governance and greater control.

Figure 4.1 USHE Internal Auditor Reports Three Layers Deep in the Organization. Internal audit standards recommend that for best audit results and performance, the internal auditor should report functionally to the Board.



As the above figure shows, the internal auditor is three levels deep in the organization. An interpretation of the Institute of Internal Audit (IIA) standards recommends a closer relationship between the auditor and the Board as shown in Figure 4.2.

Figure 4.2 IIA Guidance on Audit Standards Recommends the Auditor Report Functionally to the Board. The Board should be involved in the audit plan and in decisions regarding the chief audit executive.

The Board can have greater organizational independence when the internal audit reports functionally to the Board.

Institute of Internal Auditor (IIA) Guidance 1100 Independence and Objectivity
<p>Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner... Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:</p> <ul style="list-style-type: none"> • Approving the: internal audit charter, risk based internal audit plan, and the internal audit budget and resource plan; • Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters; • Approving: decisions regarding the appointment and removal of the chief audit executive, and the remuneration of the chief audit executive; • Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

Source : https://na.theiia.org/standards-guidance/Member%20Documents/PA_1110-1.pdf

The current USHE internal auditor (USHE auditor), needs to report to the Board to promote independence and to ensure broad

audit coverage, adequate consideration of audit communications, and appropriate action on audit recommendations.

As has been mentioned throughout the report, statute says the Board shall control, manage, and supervise the institutions of higher education. The Board exercises control over USHE institutions by taking actions that manage risk and increase the likelihood that established objectives and goals will be achieved. An independent audit function can strengthen the Board's control. Further, the Board should have the authority to hire and remove the audit manager.

Each institution in the USHE system is required to be in accordance with auditing standards and the Utah Internal Audit Act (*Utah Code 63I-5-101*), in that the board of trustees shall establish audit committees and provide functional oversight of the internal audit activities. We see no reason why the Board of Regents should not do the same. We recommend that the Board change the reporting structure so that the USHE internal auditor reports functionally to the Board of Regents.

Regents Can Bolster the Audit Function Through Risk Assessment and System Audits

The internal audit function at USHE can be strengthened through stronger risk assessment focused on system wide risks and concerns, as well as concerns of individual institutions. Each institution is required to have an audit function focusing on risk at that individual institution; what is missing is an auditor focusing on system-wide risk and checking to ensure board policies and programs are executed. Currently, work done by the USHE internal auditor has been lowered to "review" status instead of full "audit status." Further, the USHE internal auditor is tasked with additional duties and is not able to focus strictly on auditing. Again, we acknowledge that there is only a single auditor presently performing audit functions and that system-wide audits have greater complexities and may require greater resources. However, a strong Board-led audit function can enhance oversight of higher education in the state.

Internal auditor reporting to the Board with enhance control over the institutions.

An auditor focusing on system-wide risk and checking to ensure board policies and programs are being executed is currently missing from the Board.

Strengthening of Current Audit Processes Can Improve Governance

The USHE internal auditor coordinates with each institution's internal auditors, provides training, and conducts risk assessment (which is mainly focused on finance) at the institutional level. Considering the auditor's low organizational placement and low scope of audit responsibility, the position functions well.

However, what is missing is a Board-driven, system-wide audit function. This audit function would review risks across the USHE system and respond to Board concerns at individual institutions. A strong, Board-led audit function that can focus on robust risk analysis is essential for strong governance and control of the higher education system. In Figure 4.3, we list some of the USHE internal auditor's current processes and explain how these processes could be strengthened.

The system of higher education is missing a governing board-driven and system-wide audit function.

Figure 4.3 Some of the Audit Manager's Current Processes Need to Be Strengthened. The auditor's functions as presently constituted are less effective than they could be.

Current Process	How Process Can Be Strengthened
Risk Assessment: The current audit manager determines risk, with limited input from the Board.	The auditor consults with the Board to determine system-wide risk and institution-specific concerns.
Reviews: Only one review (out of five) in 2017 can be considered as having an impact on the system.	Through the audit planning process and with the Board's support and recommendations, the auditor performs independent formal audits on a system-wide basis.
Using Institutional Auditors to Assist in Reviews: It is difficult for institutional auditors to conduct system-wide audits since they are accountable and limited to their respective institutions.	Utilize an independent auditor housed at the Board's level that audits system-wide risk as well as specific, institutional concerns.

Source: Utah System of Higher Education

As the figure suggests, there are processes that could be strengthened. An independent internal auditor could also more effectively audit the process and functions of the Office of the Commissioner of Higher Education. The auditor could identify risks like those we found in the tuition approval process (see Chapter II of this report and companion report ILR #2018-D). Currently, the auditor considers tuition to be a lower financial risk; however, we found that oversight of the tuition process could be improved (almost \$100 million over five years). One regent was quoted in a 2018 consultant report as saying,

“We need more healthy tension between the Commissioner and the Board of Regents.”

An independent internal auditor can bring stronger oversight to the Commissioner and the entire system of higher education.

Additional Risk Areas Need to Be Addressed by the Board

An auditor reporting to the Board could also help oversee the Utah Higher Education Assistance Authority (UHEAA) and My529. Both entities are delegated authority to operate under the Board, which means the Board has the responsibility to govern these agencies. Figure 4.4 shows each agency’s responsibilities.

Figure 4.4 UHEAA and My529 Provide Financial Aid and Savings for Higher Education. Both agencies are under the purview of the Board of Regents.

Agency	Functions	Risk Amount
UHEAA	Financial aid literacy, loan payment assistance, and default prevention services to students and schools	\$1.7 Billion
My529	Tax-advantaged savings plan to encourage savings for a beneficiary’s future qualified higher education expenses, including K-12 tuition expenses	\$13 Billion

Source: <https://www.uheaa.org/about>; <https://my529.org/other-essentials/frequently-asked-questions/>

Tuition is currently considered a lower risk on current assessment, however, we found oversight of the tuition could be improved, thus making it a higher risk.

UHEAA and My529 have federal oversight, but additional oversight from the Board's auditor would be useful.

Both agencies have an internal audit function, however, including these agencies in the Board's risk assessment can strengthen the Board's ability to manage risk within the system of higher education.

We did not look at either of these agencies, since they were not within the scope of our audit. However, both agencies have sizeable financial assets: \$1.7 billion in student loan receivables for UHEAA and \$13 billion in assets for My529.

While these assets appear to be federally insured, we believe some oversight from the Board's auditor would be appropriate. In 2004, a former director of the Utah Education Savings Plan (which is now My529), was found to have misallocated more than \$80,000. This misappropriation, which was due to weaknesses in internal controls, provides a good reminder of why these agencies should be reviewed by an independent auditor reporting to the Board. Presently, both agencies have an internal audit function; however, including these agencies in a risk assessment can further strengthen the Board's ability to manage risk within USHE.

If the Board has greater involvement in the audit planning, it can help supervise, manage and control the system. According to IIA Standards:

The...audit activity's plan of engagements must be based on documented risk assessment, undertaken at least annually. The input of...the board must be considered in this process.

An independent audit function that reports functionally to the Board can meet this standard.

Recommendations

1. We recommend that the Board of Regents utilize an audit function to promote greater accountability throughout the Utah System of Higher Education. The internal audit director should report functionally to the Board of Regents.
2. We recommend that the Board of Regents produce formalized annual risk assessments and audit plans that include system wide risks and concerns.
3. We recommend that the internal auditor's duties only entail audit-related activities, which should be determined by the Board of Regents Audit Committee.

4. We recommend that over time resources to the audit function increase to meet the needs of the Board of Regents.

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Agency Response

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October 8, 2018

Mr. John Schaff, CIA
Legislative Auditor General
W315 Utah State Capitol Complex
Salt Lake City, Utah 84114-5315

Dear Mr. Schaff,

Thank you for the opportunity to respond to the audit report entitled "A Performance Audit of the Utah Board of Regents." The Board of Regents ("Board") is committed to providing quality higher education opportunities at a low cost. We appreciate the auditors' recommendations, which will supplement our efforts to provide effective governance and oversight of higher education at our public institutions. Both the Board and the Commissioner of Higher Education agree with the ten recommendations made in the report and will oversee the full implementation of each recommendation as outlined in the following pages.

The Board and the Commissioner are very concerned about the rising costs of tuition and maintaining affordable access to higher education for Utah residents, and they emphasize this concern in the 2025 Strategic Plan. We recognize that although Utah tuition rates consistently rank among the lowest in the nation when compared with other states¹, we still have work to do to ensure that we keep tuition affordable for our students long into the future. The Board appreciates the comment in the report from the auditors that they "recognize that institutions have funding needs that may require tuition increases" and has worked over the years to be relatively conservative in its tuition strategy, attempting to balance student affordability with the need to ensure that institutions have adequate resources to deliver a quality educational experience. The Board is actively engaged in reevaluating its current tuition policies to ensure that they reflect best practices in promoting student affordability and use of tuition revenues.

In addition to keeping tuition costs low, we are committed to providing concise and measurable metrics tied to the Board's strategic objectives to guide the Utah System of Higher Education (USHE). We appreciate the auditors' recommendations for improvement, including utilizing the system internal audit function to both verify institution data and review institution compliance with Board objectives and policies.

Specific responses to the auditors' recommendations are contained in the pages that follow.

We look forward to continuing to work with the Legislature and the Governor to ensure higher education in Utah remains both accessible and affordable, and that it delivers great value to Utah's citizens.

Sincerely,



Harris H. Simmons, Chair
Utah Board of Regents



David L. Buhler, Commissioner
Utah System of Higher Education

¹ The College Board, Annual Survey of Colleges.

Chapter I

No recommendations made

Chapter II

Recommendation 1:

We recommend that the Board of Regents, when approving tuition increases, require the Commissioner's staff to provide multiple tuition scenarios with thorough analysis of what priorities would be funded under each scenario.

Response: We concur. The Commissioner's staff will work with each institution to understand and analyze funding needs and to provide the Board of Regents with the impact of tuition changes.

Implementation Date: We expect to have this recommendation fully implemented in time for the next tuition proposal review scheduled for March 2019.

- May 2018 – The Board of Regents authorized the Commissioner to engage in an external review of tuition and student aid policies.
- June 2018 – The Commissioner engaged the Kem C. Gardner Institute to complete the external review.
- September 2018 – The Board received an update regarding the progress of the study, and directed the Commissioner and his staff to develop a revised tuition policy for Board review and discussion in November (and approval no later than January 2019) to include language to ensure that adequate and thorough analysis of tuition proposals is provided to the Board.

Recommendation 2:

We recommend that the Board of Regents require Board staff to perform periodic random testing of institutions' tuition request data.

Response: We concur. Under the direction of the Regent Audit Subcommittee, the USHE internal auditor will randomly select data submitted by institutions to verify accuracy, integrity, and reliability of the data provided to the Board of Regents.

Implementation Date: Summer 2019 – The Board will conduct random testing of institution's actual collection and use of new tuition resources approved in March 2018 for the 2018-19 Fiscal and Academic year.

Recommendation 3:

We recommend that if the Board of Regents continues to allow the Council of Presidents to review all materials before being reviewed and approved by the Board, the Board of Regents should change policy to require minutes be kept at Council of Presidents meetings.

Response: We concur. The Board of Regents will modify policy and practice to require meeting minutes to document the discussion in the Council of Presidents meetings.

Implementation Date: January 2019

Recommendation 4:

We recommend that the Board of Regents require all institutions' tuition increases to go through both institution and public review, as well as public hearings at the Board of Regents level where individual institutions present their needs and provide analysis, support, and justification for tuition increases.

Response: We concur. The Board of Regents will continue to hold a public hearing and invite public comments when considering changes to tuition.

Implementation Date: We expect to have this recommendation fully implemented in time for the next tuition proposal review scheduled for March 2019.

- March 2019 - The Board will extend its March Board meeting to two days, similar to what is currently done for the Capital Development Prioritization process. The first day of the meeting will be for the public hearing to discuss institution tuition proposals for the upcoming academic year. On the second day, the Board will take official action on any recommendations.

Chapter III

Recommendation 5:

We recommend that the Board of Regents set specific and consistent metrics for each system priority and annually report the performance of those metrics. Included with each metric should be the past performance of that metric. The reports should also be clearly (and consistently) identified and accessibly located.

Response: We concur. The Board of Regents will more clearly report system metrics and the annual progress on each metric. The metrics will be consistently presented in annual reports to the Legislature.

Implementation Date: By January 2019

- July 2018 – The Board of Regents reviewed a list of system metrics and directed the Commissioner and his staff to ensure that the proposed metrics aligned with the work being done on the P20 Education Dashboard and Performance Metrics, and that institutional input be sought regarding system metrics.
- September 2018 – The Board of Regents reviewed a revised list of system metrics and asked that staff include additional measures focusing on timely completion and the connection to workforce, specifically. The Board directed staff to report back in November with a final recommendation on

system metrics, a recommended list of institutional metrics, and recommended goals for discussion and action.

Recommendation 6:

We recommend that the Board of Regents comply with statute to set performance targets for each institution (based on system targets) and to report on their performance annually.

Response: We concur. The Board of Regents will set institutions targets and report on the status for each target in the annual report.

Implementation Date: January 2019

- July 2018 – The Board of Regents reviewed a list of system metrics and directed the Commissioner and his staff to ensure that the proposed metrics aligned with the work being done on the P20 Education Dashboard and Performance Metrics, and that additional institutional input be sought regarding system metrics.
- September 2018 – The Board of Regents reviewed a revised list of system metrics and asked that staff include additional measures focusing on timely completion and the connection to workforce, specifically. The Board directed the staff to report back in November with a final recommendation on system metrics, a recommended list of institutional metrics, and recommended goals for discussion and action.

Chapter IV

Recommendation 7:

We recommend that the Board of Regents utilize an audit function to promote greater accountability throughout the Utah System of Higher Education. The internal audit director should report functionally to the Board of Regents.

Response: We concur. In current practice, the USHE Internal Auditor directly communicates with either the Commissioner or the Regent Audit Subcommittee Chair whenever he feels appropriate. To formalize current practice, policy will be changed so that the USHE Internal Audit Director will report functionally to the Regent Audit Subcommittee and administratively to the Associate Commissioner for Finance, Facilities, and Research. Under the direction of the Regent Audit Subcommittee, the USHE Internal Audit Director will regularly audit areas of system risk while continuing efforts to mitigate overall system risks.

Implementation Date: November 2018

Recommendation 8:

We recommend that the Board of Regents produce formalized annual risk assessments and audit plans that include system wide risks and concerns.

Response: We concur. This is current practice. Under the direction of the Regent Audit Subcommittee, the USHE Internal Audit Director will continue to update the system risk assessment and will create an annual audit plan to address system risks.

Implementation Date: Ongoing

- March 2018: The Board of Regents Audit Subcommittee reviewed the systemwide risks assessment prepared by the internal auditor and asked for an annual review and update.
- March 2019: The Board of Regents Audit Subcommittee will review and adopt an annual audit plan to address system risks.

Recommendation 9: We recommend that the internal auditor's duties only entail audit-related activities, which should be determined by the Board of Regents Audit Committee

Response: We concur. The USHE internal audit will perform only audit-related activities, at the direction of the Regent Audit Subcommittee.

Implementation Date: November 2018

Recommendation 10: We recommend that over time that resources to the audit function increase to meet the needs of the Board of Regents.

Response: We concur. We look forward to using system internal audit resources to audit institution compliance with Regent policy, institutional data, and the effectiveness and efficiency of various institutional operations. We welcome additional resources that the Legislature may provide to assist us in implementing this recommendation.