



PERFORMANCE AUDIT REPORT

**Postsecondary Educational Institutions:
Reviewing Tuition Rates Being Charged To
Non-Resident Students in Kansas**

Executive Summary ***with Conclusions and Recommendations***

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
December 2006**

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$11 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. Government Accountability Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the Representatives, three are appointed by the Speaker of the House and two are appointed by the Minority Leader.

Audits are performed at the direction of the Legislative Post Audit Committee. Legislators

or committees should make their requests for performance audits through the Chairman or any other member of the Committee. Copies of all completed performance audits are available from the Division's office.

LEGISLATIVE POST AUDIT COMMITTEE

Senator Les Donovan, Chair
Senator Anthony Hensley
Senator Nick Jordan
Senator Derek Schmidt
Senator Chris Steineger

Representative John Edmonds, Vice-Chair
Representative Tom Burroughs
Representative Peggy Mast
Representative Bill McCreary
Representative Tom Sawyer

LEGISLATIVE DIVISION OF POST AUDIT

800 SW Jackson
Suite 1200
Topeka, Kansas 66612-2212
Telephone (785) 296-3792
FAX (785) 296-4482
E-mail: LPA@lpa.state.ks.us
Website:
<http://kslegislature.org/postaudit>
Barbara J. Hinton, Legislative Post Auditor

The Legislative Division of Post Audit supports full access to the services of State government for all citizens. Upon request, Legislative Post Audit can provide its audit reports in large print, audio, or other appropriate alternative format to accommodate persons with visual impairments. Persons with hearing or speech disabilities may reach us through the Kansas Relay Center at 1-800-766-3777. Our office hours are 8:00 a.m. to 5:00 p.m., Monday through Friday.



LEGISLATURE OF KANSAS

LEGISLATIVE DIVISION OF POST AUDIT

800 SOUTHWEST JACKSON STREET, SUITE 1200
TOPEKA, KANSAS 66612-2212
TELEPHONE (785) 296-3792
FAX (785) 296-4482
E-MAIL: lpa@lpa.state.ks.us

December 14, 2006

To: Members of the Kansas Legislature

This executive summary contains the findings and conclusions, together with a summary of our recommendations and the agency responses, from our completed performance audit, *Postsecondary Educational Institutions: Reviewing Tuition Rates Being Charged To Non-Resident Students in Kansas*.

The report includes one recommendation for ensuring that non-resident students receive tuition discounts only as intended by policy makers. We would be happy to discuss the findings presented in this report with any legislative committees, individual legislators, or other State officials. These findings are supported by a wealth of data, not all of which could be included in this report because of space considerations. These data may allow us to answer additional questions about the audit findings or to further clarify the issues raised in the report.

If you would like a copy of the full audit report, please call our office and we will send you one right away.

A handwritten signature in black ink that reads "Barbara J. Hinton". The signature is written in a cursive, flowing style.

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY
LEGISLATIVE DIVISION OF POST AUDIT

Overview

On average, tuition revenues fund about 20% of operating expenses at Kansas' public colleges and universities. *The Kansas Board of Regents approves tuition rates for State universities; the Washburn board of regents and the boards of trustees for community colleges are responsible for setting and approving tuition rates for those schools. Non-resident students generally are charged a higher tuition rate than in-State students. State universities tend to have the largest tuition differences – their non-resident tuition rates are 2 to 3 times higher than their resident tuition rates. In Fall 2005, about 16% of students at public universities and community colleges were non-resident students. More than three fourths-of these students attend State universities.*

Question 1: To What Extent and Why Are Non-Resident University And College Students Paying Reduced Rates, and What Is the Fiscal Impact?

Schools can reduce tuition rates for non-resident students by law and by policy. *Certain groups of non-resident students are specifically mentioned in State laws regarding tuition reduction, such as members of the military and employees of the school. State law also gives boards of regents and the boards of trustees broad general authority to approve tuition rates at the schools they oversee. Under this authority, some schools have policies allowing discounts to non-residents from bordering states or counties, or for certain types of classes, such as those offered on-line. Finally, State law allows non-resident students to qualify for resident rates after living in Kansas for 6 months (community college students) or a year (university students) if certain conditions are met.* page 5

At least 46% of non-resident students paid a reduced tuition rate in Fall 2005; those reductions totaled \$26 million. *Of the nearly 27,000 non-resident students enrolled at public colleges and universities in Fall 2005, more than 12,000 got some sort of rate reduction. Most of the tuition-rate reductions occurred at State universities; they accounted for 86% of the non-resident students receiving a tuition reduction, and 95% of the tuition discounted. Individual student tuition-rate reductions in Fall 2005 ranged from \$13 at a community college to more than \$10,000 for a graduate program student.* page 6

Specific tuition-rate reductions authorized by the Legislature accounted for 40% of the students and more than half the amount by which tuition was reduced. *Nearly all the remaining students qualified for a rate reduction under institutional policies approved by their oversight* page 8

boards. Three types of tuition reductions account for most of the students and money associated with non-resident tuition-rate reductions:

- employees of the institutions and their dependents
- students enrolled in off-campus or online classes
- students from counties or states bordering Kansas

We identified a limited number of non-resident students whose tuition-rate reductions seemed questionable to us, or were clearly in error.

Tuition paid by non-resident students more than covers the cost per credit hour at universities, but not at community colleges. page 11
Cost per credit hour is an estimate of teaching costs. It averages about \$260 at State universities, and about \$200 at community colleges. In aggregate, tuition revenues received from all non-resident students (regardless of whether they paid full or reduced rates) more than covered the cost per credit hour at State universities. This wasn't true at community colleges, where non-resident rates are far lower than the cost per credit hour to begin with.

Question 1 Conclusion. page 12
In Fall 2005, at least 46% of the nearly 27,000 non-resident students at Kansas' public colleges and universities received some type of waiver or discount, which resulted in tuition reductions of nearly \$26 million. Specific statutory authorizations accounted for 40% of the non-resident students whose tuition was reduced, and for 56% of the money. Policies of boards of regents or trustees accounted for the remainder.

Question 1 Recommendation. page 12
To eliminate errors in granting tuition discounts, we recommended school officials ensure that statutory and institutional policy requirements are followed. Agency officials agreed with this recommendation.

Question 2: To What Extent Is Tuition for Kansas' University Students Offset by Government-Sponsored Education Grants And Tax Benefits?

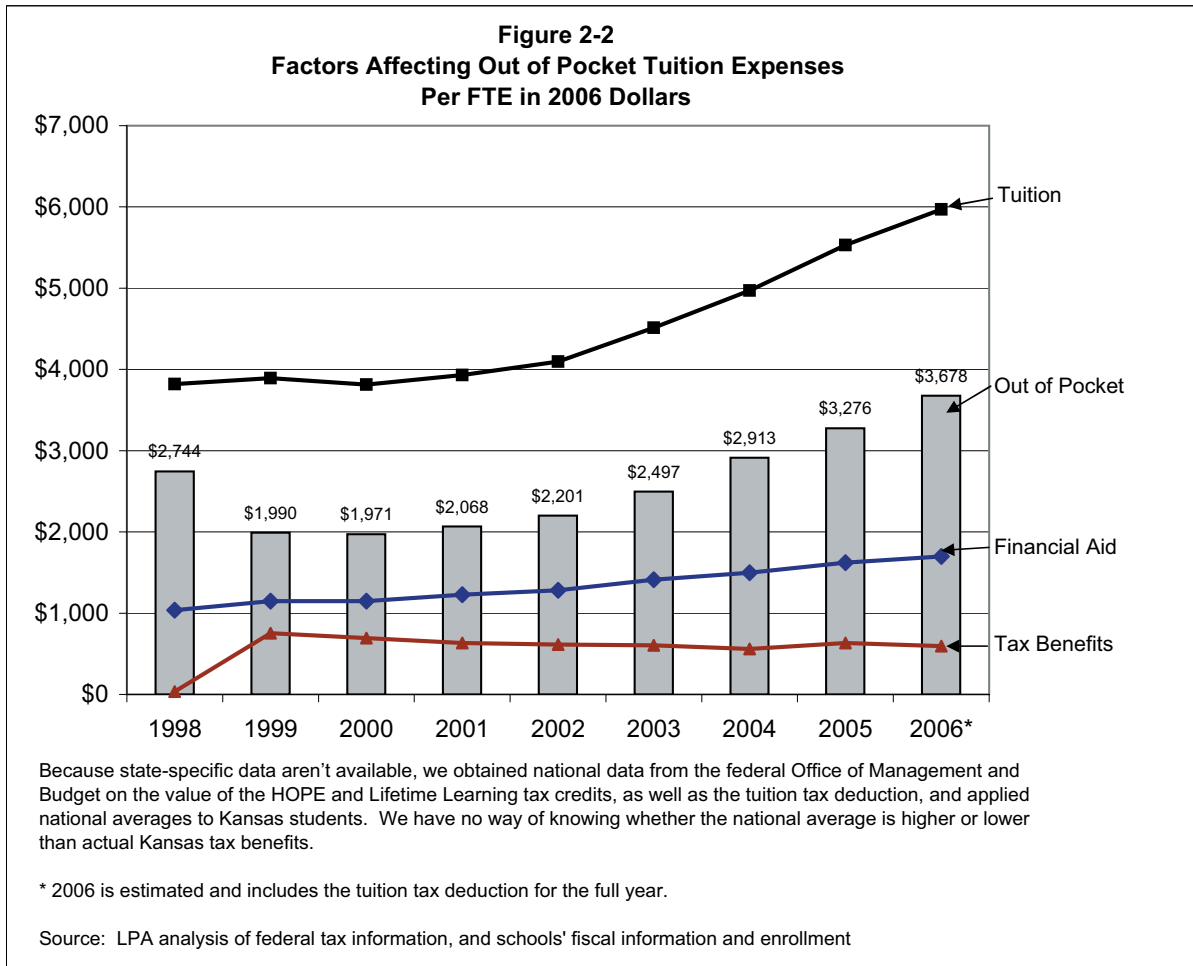
This question covers only Regents' universities and Washburn University.

Beginning in the late 1990s, the federal government took several actions to reduce the tuition burden on families. page 13
The Taxpayer Relief Act of 1997 created two new education tax credits that went into effect in 1998. In addition, in 2001 Congress approved a tax deduction for higher education expenses. In 2004, a USA Today newspaper article reported that these tax breaks—together with student aid—more than offset tuition increases. Legislators questioned whether this was true for Kansas.

Average out-of-pocket tuition costs decreased in Kansas after the 1998 tax benefits took effect, but have risen rapidly since 2002. page 14
The initial decline was similar to the national pattern, but out-of-pocket costs have subsequently been rising for three reasons:

- tuition rates have increased markedly for university students in Kansas since 2002
- student financial aid has increased gradually since 1998, but hasn't kept pace with the rise in tuition rates
- estimated tax benefits spiked in 1999 after the enactment of two new credits, but have been tapering off ever since.

Figure 2-2 shows these results.



APPENDIX A: Scope Statement page 17

APPENDIX B: Number of Out-of-State Students page 19

Who Received Tuition Waivers

And Discounts in Fall 2005

APPENDIX C: Published Tuition Rates in Fall 2005 page 20

APPENDIX D: Tuition Waivers and Discounts in Fall 2005 page 21

As Reported by Schools

APPENDIX E: Agency Response page 22

This audit was conducted by Chris Clarke, Felany Opiso-Williams, Brad Hoff, Molly Coplen, and Lisa Hoopes. Cindy Lash was the audit manager. If you need any additional information about the audit's findings, please contact Ms. Clarke at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.