

# **PERFORMANCE AUDIT REPORT**

## **Examining Certain Aspects of Community College Funding**

**A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit  
State of Kansas  
March 1984**

## **PERFORMANCE AUDIT REPORT**

### **Examining Certain Aspects of Community College Funding**

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#### **OBTAINING AUDIT INFORMATION**

This audit was conducted by two members of the Division's staff: Barb Hinton, senior auditor, and Allan Foster, auditor. Ms. Hinton was the project leader. If you need any additional information about the audit findings, please contact Ms. Hinton at the Division's offices.

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**TABLE OF CONTENTS**

**SUMMARY OF AUDIT FINDINGS**

**EXAMINING CERTAIN ASPECTS OF  
COMMUNITY COLLEGE FUNDING**

How Has The Mix of State and Local Funding Changed In Recent Years? . . . . .	1-2
What Would Be the Effect of Distributing State Aid on the Basis of Credit Hours Completed Rather than Credit Hours Attempted? . . . . .	2-6
What Are the Schools' Policies For Granting Free or Reduced Tuition to Senior Citizens? . . . . .	6-7

<b>APPENDIXES:</b> Sources of Revenue: Community Colleges and Washburn University . . . . .	8-9
Kansas Community Colleges and Washburn University Mill Levies. . . . .	10
Credit Hours Claimed for State Credit Hour and Outdistrict Aid, Fall Semester 1983 . . . . .	11

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## EXAMINING CERTAIN ASPECTS OF COMMUNITY COLLEGE FUNDING

### SUMMARY OF AUDIT FINDINGS

This audit answers a number of questions relating to community college funding. The results are summarized below.

**How has the mix of State and local funding changed in recent years?** Over the last 10 years, all three major sources of revenue--State aid, local funding, and tuition--have increased in dollar amounts. As a percent of total revenues, they have remained fairly constant, fluctuating within only a five percent range up or down. State and local funding now account for approximately the same percentage of total revenues as they did 10 years ago, although State aid has dropped slightly and local aid has increased slightly from fiscal year 1981 levels. The recent fluctuations have been caused by a growth in expenditures that has outpaced the growth in either enrollments or State aid rates.

**What would be the effect of distributing State aid on the basis of credit hours completed rather than credit hours attempted?** Based on a statistically valid sample of students enrolled in the community colleges and Washburn University during the Fall 1983 semester, the auditors determined that students complete approximately 85 percent of the credit hours they attempt. Thus, under such a funding method, the schools as a whole could stand to lose 15 percent of their State aid. At current funding levels, that would amount to approximately \$4 million less for fiscal year 1984. If hourly State aid rates were increased, the impact would be lessened considerably. At an 85 percent completion rate, State aid rates could be increased across-the-board by up to \$4.01 per credit hour before current funding levels would be exceeded. At a 90 percent completion rate, the "breakeven" point would drop to \$2.52 per credit hour. The amount of aid each school received would vary according to the credit hours actually completed at that school. Such information is not now readily available.

**What are the colleges' policies for granting free or reduced tuition to senior citizens?** Many of the community colleges reported that they offer free or reduced tuition to senior citizens. In each case, however, the colleges use school or foundation scholarship programs or private donations to pay for their tuition. Therefore, the colleges appeared to be in compliance with the statutes prohibiting tuition waivers. As long as the credit hours taken by senior citizens meet all other requirements for being part of a State-approved program, these hours can legitimately be claimed for State aid purposes.



## EXAMINING CERTAIN ASPECTS OF COMMUNITY COLLEGE FUNDING

At its meeting on January 17, 1984, the Legislative Post Audit Committee directed the Legislative Division of Post Audit to conduct a performance audit examining several issues relating to funding the State's 19 community colleges and Washburn University. The audit addresses three major questions: How has the mix of State and local funding for these schools changed in recent years? What would be the effect on State aid if the basis for distributing it were changed from credit hours enrolled in to credit hours completed? And to what extent do these schools give senior citizens free or reduced tuition?

To answer these questions, Legislative Post Audit gathered information from all 20 schools on the number of credit hours completed in the Fall 1983 semester, and on the schools' policies for granting tuition waivers. The auditors also analyzed revenue and expenditure information compiled by the Department of Education.

### How Has the Mix of State and Local Funding Changed in Recent Years?

Data on the sources of revenue for community colleges and Washburn University were gathered from Department of Education publications and budget documents. The auditors examined figures for fiscal years 1975 through 1984. Their analysis is summarized below.

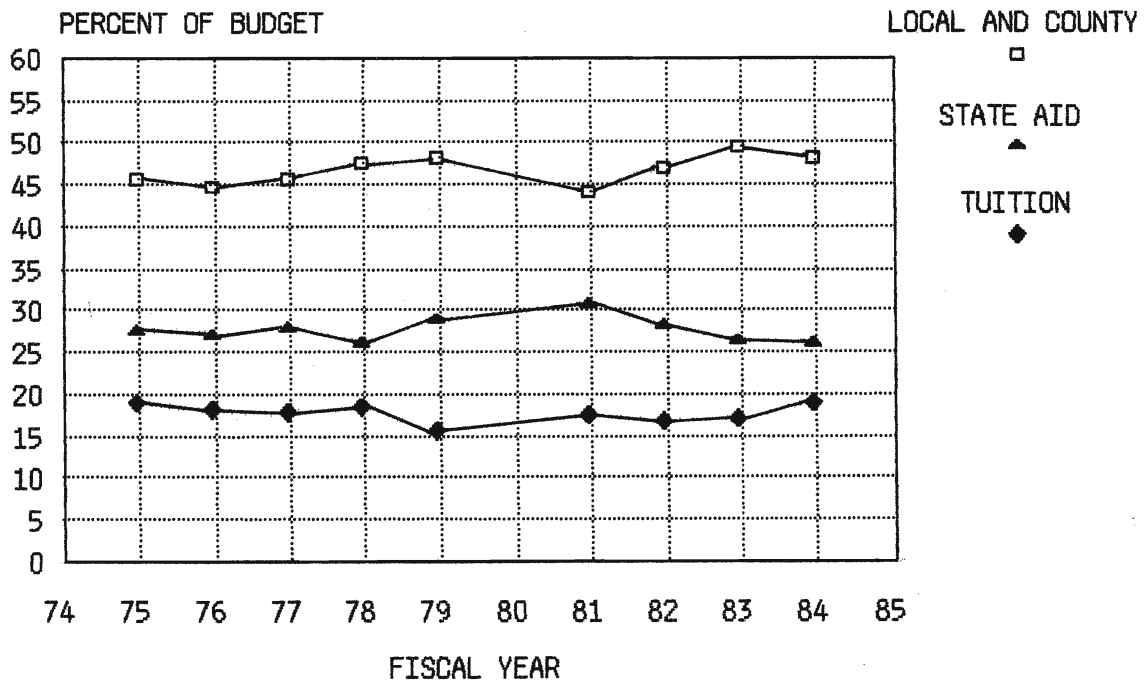
#### State Aid Has Increased in Dollar Amounts, But Has Decreased Slightly as a Percent of Total Revenues

Over the last ten years, total revenues for the community colleges and Washburn University have more than doubled, rising from \$40.4 million in fiscal year 1975 to the current level of \$101.7 million. During this time, all the major sources of revenue increased in dollar amounts. State aid rose from \$11.0 million to \$26.4 million, local funding increased from \$18.4 million to \$48.6 million, and student tuition went from \$7.5 million to \$18.8 million. This information is presented in greater detail in the following table and in Appendix A.

Sources of Funds (in millions)	<u>FY 1975</u>	<u>FY 1977</u>	<u>FY 1979</u>	<u>FY 1981</u>	<u>FY 1983</u>	<u>Budgeted FY 1984</u>
Local	\$18.4	22.6	\$30.2	\$32.4	\$47.6	\$ 48.6
State Aid	11.0	13.8	18.1	22.4	25.5	26.4
Tuition	7.5	8.9	9.9	12.7	16.2	18.8
Federal	.3	.8	.6	.7	.4	1.0
Other	<u>3.2</u>	<u>3.8</u>	<u>4.2</u>	<u>5.3</u>	<u>7.0</u>	<u>6.9</u>
<b>Total</b>	<u>\$40.4</u>	<u>\$49.8</u>	<u>\$62.9</u>	<u>\$73.5</u>	<u>\$96.8</u>	<u>\$ 101.7</u>

To examine how the different sources of funding have changed in relation to each other, it is necessary to look at them as a percentage of total revenues. The accompanying graph shows the three most important sources of revenue in these terms and illustrates their relative fluctuations over time. As the graph shows, all three sources have remained relatively constant, although State aid has declined slightly and local aid has risen slightly as a percent of total revenues.

**COMMUNITY COLLEGES AND WASHBURN UNIVERSITY  
SOURCES AS PERCENT OF TOTAL REVENUE**



State aid represented 27.1 percent of total revenues in 1975, and generally followed a slowly rising trend until it reached a peak in 1981 at 30.5 percent. In the years since 1981, State aid has followed a slight downward trend to its current level of 26.0 percent of total revenues.

Locally generated funds make up the largest portion of revenues for the schools. In 1975, local aid represented 45.4 percent of total revenues. This source has fluctuated over the years from a low of 44.1 percent in 1981 to a peak of 49.2 percent in 1983. In fiscal year 1984, it fell slightly to account for 47.8 percent of total sources. Tuition has hovered fairly consistently around 18 percent.

To determine why State aid has declined in recent years in relation to other sources of funding, the auditors examined expenditure and enrollment data for fiscal years 1979 through 1983. The following table summarizes this information.

	<u>Fiscal Year</u> <u>1979</u>	<u>Fiscal Year</u> <u>1983</u>	<u>% Increase</u> <u>1979-1983</u>
FTE Enrollment	20,855	25,019.1	20.0%
Expenditures	\$52.0 million	\$79.1 million	52.1
State Aid	\$15.9 million	\$21.9 million	37.7
Local Aid	\$24.8 million	\$39.6 million	59.7

As the table shows, the schools' full-time equivalent enrollment is up by 20 percent. State aid is based on the number of credit hours enrolled in, so its increase will tend to mirror what happens in enrollment. During the period, State aid rose 37 percent, a steeper increase than enrollment because the amount paid by the State per credit hour increased. However, the overall rate of increase in expenditures during the period was much higher--52 percent. As a result, local aid rose at a much greater pace--nearly 60 percent. Local mill levies went up an average of 77 percent since 1978. These increases ranged from three percent at Garden City to 154 percent at Colby. Appendix B presents mill levy information for all the colleges.

There was not time in this audit to examine the specific reasons why community college spending was increasing at such a faster pace than enrollment. Inflation, new services, and the need for more faculty and space might all be reasons.

#### **What Would Be the Effect of Distributing State Aid On the Basis of Credit Hours Completed Rather Than Credit Hours Attempted?**

State credit hour and outdistrict aid are now computed and distributed to the community colleges and Washburn University on the basis of credit hours enrolled in. Each semester, the schools provide the Department of Education with a list of students enrolled as of the 20th day of class, and the credit hours that are eligible for State aid. (Only courses that are part of an academic or vocational program approved by the Department are eligible for State aid.) The Department audits the information provided, then distributes State aid on the verified figures. Credit hour aid is now set at \$23 per academic hour; the rate for vocational courses is one-and-one-half times that amount, or \$34.50 per vocational hour. Outdistrict aid is an additional \$21.50 per credit hour.

The Legislature is currently reviewing the option of distributing State aid on the basis of credit hours completed rather than credit hours enrolled in. The major questions, then, become what percentage of credit hours are actually completed, and what dollar impact would the new funding method have on the community colleges and Washburn University.

#### **Systemwide, Students Complete About 85 Percent Of the Credit Hours They Enroll In**

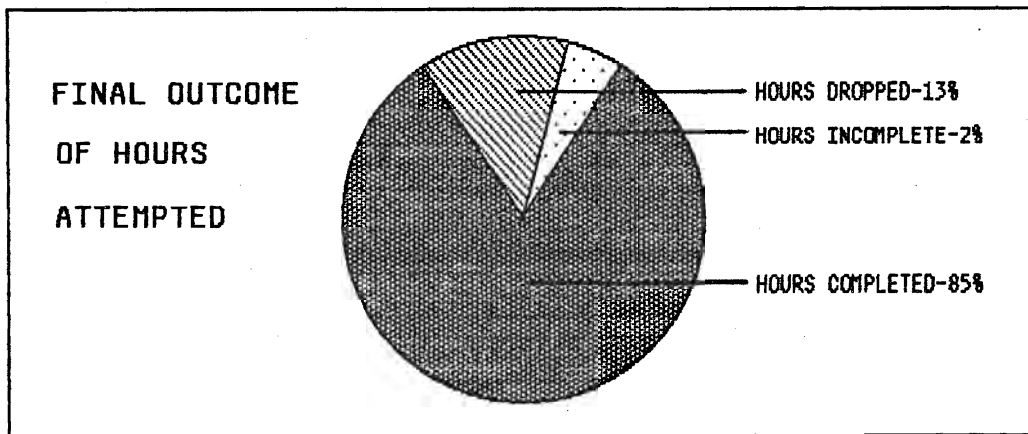
To determine the extent to which credit hours are completed, the auditors selected a statistically valid, random sample of 597 students enrolled in the community colleges and Washburn University during the Fall 1983 semester. These students were selected from the lists each school provides to the



Department of Education for use in computing State credit hour and outdistrict aid.

For each student in the sample, the auditors contacted school officials to determine the number of credit hours enrolled in and the number of hours completed; that is, the hours for which the student received a grade of A-F. The results were also verified from student transcripts.

Altogether, the 597 students in the sample were enrolled in a total of 5,094 credit hours. They completed 4,317 credit hours, or approximately 85 percent of the hours they were enrolled in. Those students withdrew from 685 hours, or 13 percent, and got incompletes for 90 hours, or two percent.



#### **The Funding Impact on the Schools Could Vary, Depending Mostly on Any Increases in State Aid Rates**

If State aid were to be distributed on the basis of credit hours completed without adjusting State aid rates, the impact on the 20 schools would be fairly significant--it would drop by 15 percent. For the Fall 1983 semester, these schools received a total of nearly \$12.3 million in State credit hour and outdistrict aid. If that aid had been distributed systemwide on the basis of credit hours completed rather than credit hours enrolled in, they would have received only 85 percent of that amount, or approximately \$10.44 million. The schools' budgeted State aid for all of fiscal year 1984 is approximately \$26.4 million. If that aid were cut by 15 percent, the schools would receive nearly \$4.0 million less.

The Legislature is, however, considering increasing the hourly State aid rates. Any increase would offset the impact of a funding switch. The auditors made a number of calculations to determine the hourly amount by which State aid could be increased, given an 85 percent completion rate, to match current funding levels. These calculations assumed that the systemwide completion rate of 85 percent applied to all types of courses (academic, vocational, outdistrict, and law school), and that the Fall 1983 semester was similar in nature to other semesters.

The auditors' computations showed that, if State funding were based on credit hours completed, all categories of State aid could be increased by up to \$4.01 per credit hour before current funding levels would be exceeded. At that hourly rate of increase, State aid would be as follows:

Academic credit hour aid	=	\$27.01
Vocational credit hour aid	=	40.52 (1½ times the credit hour rate)
Outdistrict aid	=	25.51
Law hour aid	=	30.01

These amounts could change considerably, depending on which categories of State aid are increased. For instance, if outdistrict and law hour aid were kept at their current hourly rates, credit hour aid could be increased by as much as \$5.29 per credit hour without exceeding current funding levels. The credit hour information that formed the basis for these figures is listed in Appendix C.

**Fluctuations in the percentage of credit hours completed could influence the amount of increase in State aid.** Several school officials indicated that, if State funding were switched to a credit-hours-completed basis, some courses might be watered down to ensure that students did not withdraw, or more students might be flunked rather than being allowed to withdraw. If this were the case, the systemwide percentage of credit hours completed would undoubtedly rise. If it were raised to 90 percent, the "breakeven" point for increasing each category of State aid without exceeding current funding levels would drop to \$2.52 per credit hour.

**Differences in completion rates could also alter the distribution of State aid among schools.** The sample of 597 students allows the auditors to talk about the system as a whole with accuracy, but not about individual schools. Compiling the actual completion rate for each school would have taken a much larger sample--one that could not have been completed in the time available.

In response to the auditors' survey, however, several schools were able to provide information about completion rates for one or more semesters. The range was 78-98.8 percent. In some instances, the reported figures included incomplete credit hours, gave completion rates for approved and non-approved courses combined, or were available only for selected types of hours (outreach or evening classes, for example). Nonetheless, these percentages help show the extent to which completion rates vary by school. The amount of aid each school would receive under the new funding method would vary according to its actual completion rate. Schools with high completion rates would get proportionately more money than schools with low completion rates.

At most schools, information about completion rates is currently not kept and is not readily available. As a result, actual completion rates on a school-by-school basis cannot be obtained during this legislative session. Information could be gathered by the schools and reported to the Department of Education over the next several semesters, but it would not be available until the next legislative session.

### **School Officials Are Adamantly Opposed to Changing the Basis For Distributing State Aid**

Legislative Post Audit also surveyed community college and Washburn University officials to get their comments about the potential advantages and

disadvantages of switching the State aid funding basis to credit hours completed.

None of the school officials responded in support of the proposed funding change; in fact, all were strongly against it. Besides the potential drop in academic standards mentioned earlier, their major concerns can be summarized as follows:

- It costs as much to teach a student who does not complete a course as one who does.** Start-up and fixed costs for faculty, staff, facilities, utilities, and the like are incurred on the basis of student enrollments.
- The State has an open enrollment policy.** The schools must accept all students who apply, yet they would be penalized for those who withdrew.
- Distributing State aid on the basis of credit hours completed would cause major budgeting and cash flow problems.** Most school officials assumed State funds would be distributed at the end of the semester under the new proposal, rather than during the semester. There are ways to get around the problem. State aid could be distributed early, then adjusted based on each school's completion rate.
- A drop in State funding levels could lead to a corresponding increase in local tax dollars or tuition rates.**
- This funding method would create an unfair double standard.** It is not used for Regents' institutions.
- The changeover would create significant administrative reporting problems.** Because most schools do not compile and maintain information on credit hours completed, they would have to modify existing computer programs and add more clerical and administrative staff. Because of federal reporting requirements, schools would have to keep both reporting systems. Compiling credit hour information at the end of one semester, while trying to start another, would also be disruptive.

Only one school discussed any potential advantages: if State aid were increased to \$26 per hour, as proposed early in the session by the Kansas Association of Community Colleges, any school with a high percentage of credit hours completed would likely get more State aid than it is now getting under the current funding method.

### **What Are the Schools' Policies for Granting Free or Reduced Tuition to Senior Citizens?**

During the 1983 interim, legislative concerns were raised that some community colleges may be granting free or reduced tuition to senior citizens, then claiming their credit hours for additional State aid. By law, the community colleges cannot waive the tuition for any senior citizen, staff, faculty, or their dependents for any reason. (Washburn University is not subject to such restrictions.)

This issue has surfaced several times in the past. In November 1979 and again in February 1981, the Department of Education sent letters to all community college presidents regarding the issue of tuition waivers. These letters were apparently sent after the Department learned that some colleges were not in complete compliance. The Department pointed out that tuition waivers were illegal, and that scholarships for senior citizens, faculty, or staff funded with public moneys could be granted only to in-district students.

Legislative Post Audit surveyed the community colleges about their current policies and practices regarding tuition waivers. Given the scope and time limitations of this audit, the auditors did not conduct on-site visits to verify the schools' statements. Seventeen of the 19 colleges returned the survey forms in time to be included in the report.

The information provided by the schools showed that, although senior citizens may not have to pay for their tuition at some schools, the tuition is apparently paid through other funding sources. Eight schools have some form of full tuition scholarship or grant program designated specifically for senior citizens. Of these, two are funded through private donations or foundation moneys, and six are funded primarily through college funds. Another school does authorize a slightly lower tuition rate of \$12 per credit hour for senior citizens, but this amount is above the \$10 statutory minimum. The eight remaining colleges reported they have no separate tuition support program specifically designated for senior citizens.

According to school officials, an estimated 423 senior citizens received tuition scholarships during the Fall 1983 semester. Forty-eight got the lower tuition rate of \$12 per credit hour. As with courses taken under any other scholarship program, if the courses taken by senior citizens met all other requirements of being part of a State-approved program, they were reported to the Department of Education for State credit-hour funding.

In sum, the schools appear to be in compliance with the law prohibiting tuition waivers. Further, during the auditors' conversations with officials from each of the 20 schools, it was clear that all were aware of the illegality of tuition waivers. Several schools do have publicly funded scholarship programs specifically directed toward senior citizens, but the law allows such scholarships for senior citizens, faculty and staff as long as the students reside within the college's district. All the schools with publicly funded scholarship programs reported those scholarships went solely to in-district students.

**APPENDIX A**

**Sources of Revenue  
Community Colleges and Washburn University**

**Funding in Dollars**

<u>Source</u>	<u>FY 1984 Budgeted</u>	<u>FY 1983</u>	<u>FY 1982</u>	<u>FY 1981</u>	<u>FY 1979</u>
Local and County	\$ 48,578,477	\$47,615,485	\$39,220,645	\$32,400,335	\$30,245,663
State	26,381,636	25,486,748	23,451,338	22,432,311	18,068,719
Federal	977,805	425,975	606,814	686,918	561,040
Tuition	18,814,944	16,216,772	13,814,558	12,699,629	9,850,921
Other	6,916,104	7,039,757	6,804,726	5,278,818	4,213,706
<b>Total</b>	<u>\$101,668,966</u>	<u>\$96,784,737</u>	<u>\$83,898,081</u>	<u>\$73,498,011</u>	<u>\$62,940,049</u>

**Sources as a Percent of Total Revenue**

<u>Source</u>	<u>FY 1984 Budgeted</u>	<u>FY 1983</u>	<u>FY 1982</u>	<u>FY 1981</u>	<u>FY 1979</u>
Local and County	47.8%	49.2%	46.7%	44.1%	48.0%
State	26.0	26.3	28.0	30.5	28.7
Federal	1.0	.4	.7	.9	.9
Tuition	18.5	16.8	16.5	17.3	15.7
Other	6.7	7.3	8.1	7.2	6.7

**Funding in Dollars (continued)**

<u>Source</u>	<u>FY 1978</u>	<u>FY 1977</u>	<u>FY 1976</u>	<u>FY 1975</u>	<u>% Change 1979-1983</u>
Local and County	\$ 25,950,823	\$22,629,558	\$21,058,857	\$18,350,194	57.4%
State	14,230,940	13,751,585	12,778,959	10,953,158	41.1
Federal	752,932	761,221	760,191	389,482	(24.1)
Tuition	10,010,113	8,852,525	8,549,995	7,493,506	64.6
Other	3,970,144	3,838,181	4,281,876	3,230,514	67.1
<b>Total</b>	<u>\$ 54,914,952</u>	<u>\$49,833,070</u>	<u>\$47,429,878</u>	<u>\$40,416,854</u>	<u>53.8%</u>

**Sources as a Percent of Total Revenue (continued)**

<u>Source</u>	<u>FY 1978</u>	<u>FY 1977</u>	<u>FY 1976</u>	<u>FY 1975</u>
Local and County	47.3%	45.4%	44.4%	45.4%
State	25.9	27.6	27.0	27.1
Federal	1.4	1.5	1.6	1.0
Tuition	18.2	17.8	18.0	18.5
Other	7.2	7.7	9.0	8.0

Figures for fiscal year 1980 were not available in Department of Education statistical reports.

**APPENDIX B**

**Kansas Community Colleges and Washburn University  
Mill Levies**

<u>Community College</u>	<u>1978 Mill Levy</u>	<u>1983 Mill Levy</u>	<u>% increase since 1978</u>
Allen County	6.21	12.54	102%
Barton County	8.72	12.61	45
Butler County	9.07	11.58	28
Cloud County	8.70	17.04	96
Coffeyville	14.12	20.65	46
Colby	8.64	21.95	154
Cowley County	7.45	12.97	74
Dodge City	10.50	25.11	139
Fort Scott	12.43	20.44	64
Garden City	10.48	10.74	3
Highland	14.98	31.52	110
Hutchinson	6.54	16.42	151
Independence	12.17	26.03	114
Johnson County	6.98	11.79	69
Kansas City	5.95	10.70	80
Labette County	8.77	19.58	123
Neosho County	11.32	16.51	46
Pratt	11.03	15.74	43
Seward	12.45	16.17	30
Washburn	7.68	13.86	81
<b>Average Percent Increase</b>			<b>77%</b>

**APPENDIX C**

**Credit Hours Claimed for State Credit Hour  
and Outdistrict Aid (a)  
Fall 1983 Semester**

<u>Community College or University</u>	<u>Regular Credit Hours</u>	<u>Vocational Credit Hours</u>	<u>Outdistrict Credit Hours</u>	<u>Law School Credit Hours</u>
Allen County	7,505	1,955	4,405	
Barton	10,274.5	6,075	7,315.5	
Butler	16,839	8,541	13,860	
Cloud	11,892	2,321	9,889	
Coffeyville	7,627	2,490	2,578	
Colby	7,707	2,795.5	7,265	
Cowley	6,075	6,208	3,274	
Dodge City	10,766	3,061	7,439	
Fort Scott	5,865	2,256	4,454	
Garden City	7,253	3,875	3,881	
Highland	6,791	2,233	6,775	
Hutchinson	18,793.5	6,377	9,829.5	
Independence	5,450	2,157	2,485	
Johnson County	33,392	25,667.5	5,439	
Kansas City	21,869	11,329	7,383	
Labette	8,745	6,365	5,454	
Neosho	3,785	3,206	2,883	
Pratt	3,918	2,366	3,579	
Seward	3,980	2,150	1,626	
Washburn	<u>56,027.5</u>	<u>0</u>	<u>14,145.5</u>	<u>7,452</u>
<b>TOTAL</b>	<u><u>254,554.5</u></u>	<u><u>101,428</u></u>	<u><u>123,959.5</u></u>	<u><u>7,452</u></u>

(a) These credit hours were reimbursed at the following rates:

Regular Credit Hours	\$23.00
Vocational Credit Hours	34.50
Cowley County Vocational Credit Hours (AVTS)	46.00
Outdistrict Credit Hours	21.50
Law School Credit Hours	26.00



